ANNUAL REPORT

FLYHT AEROSPACE SOLUTIONS LTD.

2012

THE FUTURE OF
CONNECTIVITY

FLYHT
The Future of Connectivity

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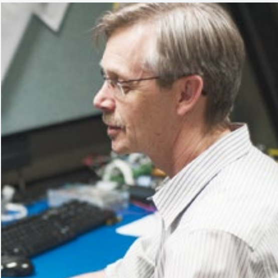
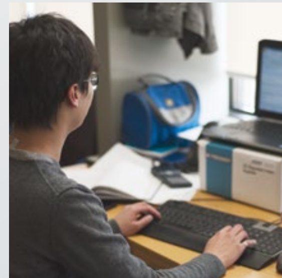
COMPANY PROFILE

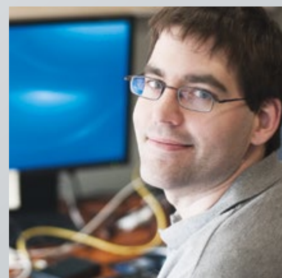
FLYHT Aerospace Solutions Ltd. ("FLYHT" or the "Company") (TSX-V:FLYHT) designed and developed the Automated Flight Information Reporting System ("AFIRS™") which is installed on aircraft, and collects and sends data to airlines in real time. The Company's patented suite of technologies, enabled by AFIRS, enhances the safety, efficiency and profitability of airline operations by providing real-time communication. FLYHT is based in Calgary, Canada and has service locations around the world for its global customer base. The Company operates under the FLYHT™ brand name.

2012 SNAPSHOT

- AFIRS 220 reaches one million flight hours.
- NetJets Europe orders AFIRS for all 30 of its Hawker Beechcraft 750/800XP aircraft.
- FLYHT and Star Navigation announce settlement of litigation.
- FLYHT and L-3 Aviation sign agreement to provide SatCom solutions for Airbus A320 and A350.
- After seeing a demonstration of FLYHTStream™, staff of the Bureau d'Enquetes et d'Analyses ("BEA"), the body in charge of the accident investigation for France and French airlines, recommended "…that EASA and ICAO make mandatory as quickly as possible, for airplanes making public transport flights with passengers over maritime or remote areas, triggering of data transmission to facilitate localization as soon as an emergency situation is detected on board".
- FLYHT commences line installation on Bombardier CRJ900 for aircraft bound for the China market.
- Nigerian Civil Aviation Authority ("NCAA") has given domestic airlines in Nigeria a mandate to install AFIRS.
- Revenues grew by 19% from 2011.
- Official name change and branding of FLYHT.





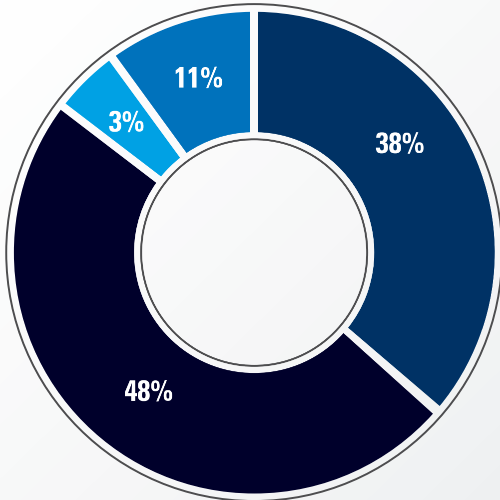


2013 FLYHT PLAN

- Continue revenue growth and become cash flow positive by the end of 2013.
- Work with Nigerian Civil Aviation Association to implement mandatory AFIRS installations on all Nigerian aircraft and increase service offerings to both the NCAA and our customers.
- Continue to expand Supplemental Type Certificate ("STC") list for our products.
- Complete installations and begin realizing revenue from NetJets Europe contract.
- Bring on another original equipment manufacturer ("OEM") partner.
- Begin installing AFIRS on Airbus aircraft on factory floor.

INVESTMENT HIGHLIGHTS

- An unparalleled technology that saves money, time and drives efficiencies never before available to the airline industry.
- Positioned to secure large multi-aircraft contracts in addition to smaller historical contracts with specialty carriers.
- Proven recurring revenue model with multi-year contracts, 62% of revenue from existing customers.
- Absolute customer satisfaction to date.
- No contract has been cancelled.
- Strong contractual relationships with L-3 Communications for Airbus installs.



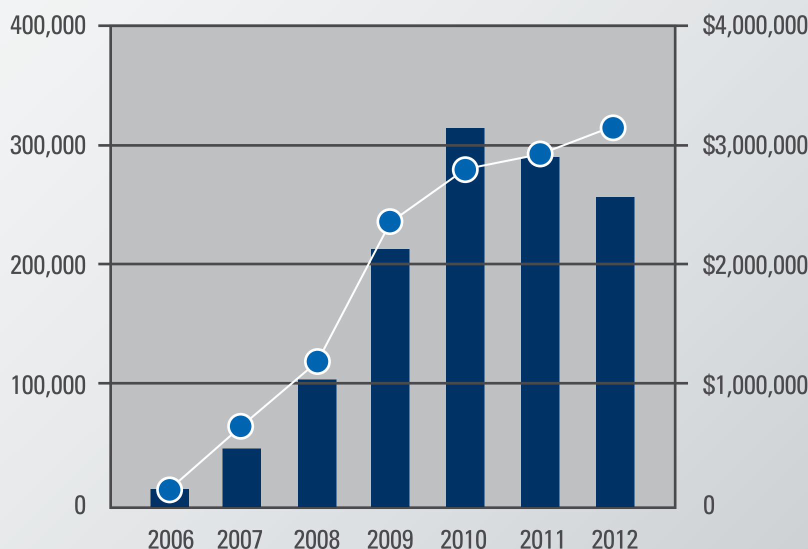
2012 REVENUE SOURCES

- AFIRS UpTime Sales: AFIRS UpTime lease and sales type contracts
- AFIRS UpTime Usage:Revenue from use of services such as voice and data fees
- Parts: AFIRS parts and Underfloor Stowage Units
- Services: Technical, repair and installation support services

For year end December 31, 2012. Dollar amounts available on pg. 25 of the 2012 Annual Report

CUSTOMER REVENUE GROWTH

Flight Hours and Recurring Revenue with AFIRS

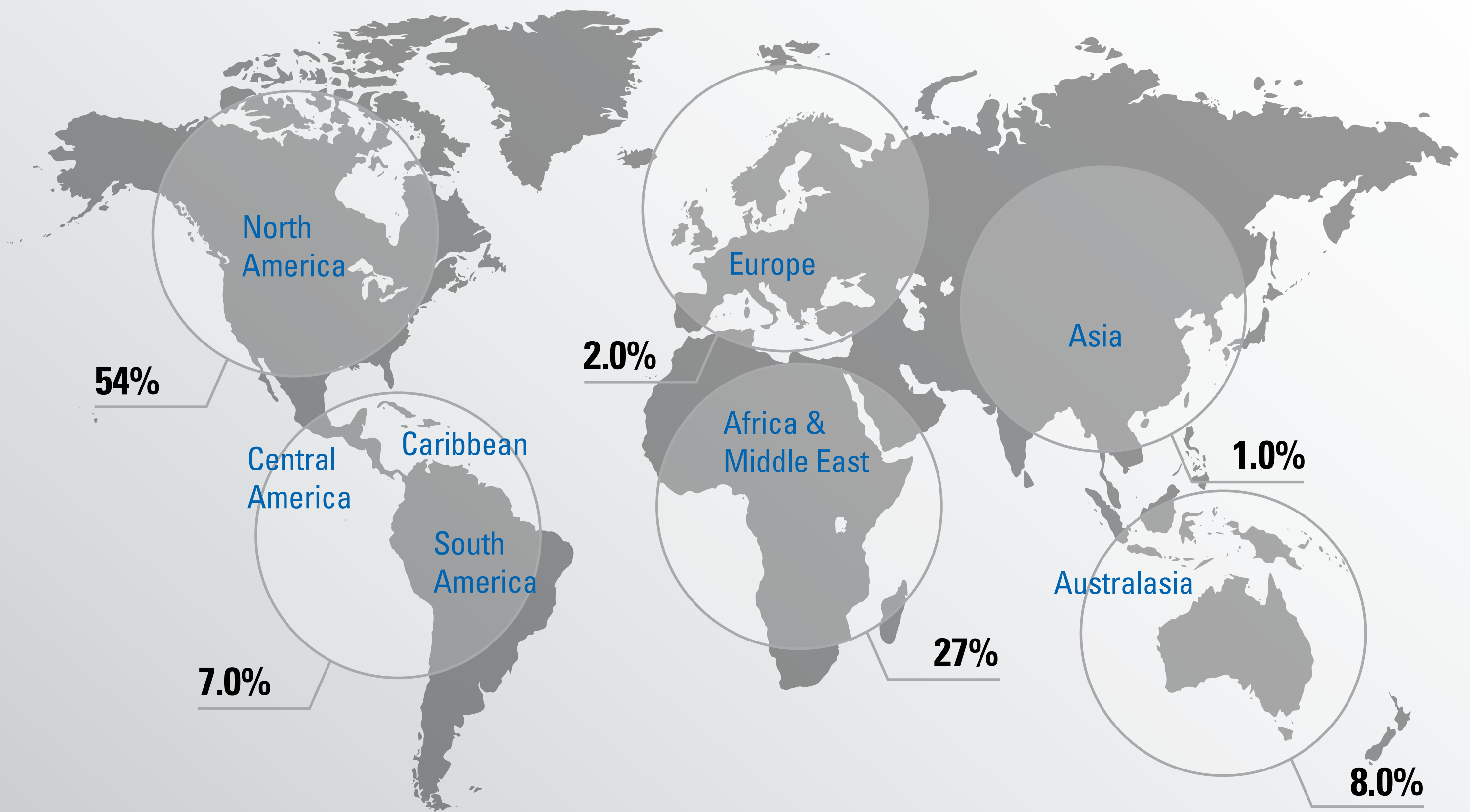


The Company's customers logged 260,000 hours in 2012 with AFIRS 220 onboard their aircraft. Flight hours decreased in the year over 2011 specifically for our customers in the United States because there was a decrease in airlifts related to US military operations. This was not a great concern to the Company as recurring revenues (pg.25) continued its year over year increase.

On March 9, 2012 the Company reached its one millionth flight hour with AFIRS 220 onboard customer aircraft.

- Flight Hours
- Revenue

PERCENTAGE OF CUSTOMER REVENUE BASED ON LOCATION IN 2012



For year end December 31, 2012. Dollar amounts available on pg.25 of 2012 Annual Report. See attached graph

AFIRS 228 PROGRESS REPORT

LAST YEAR, WE INFORMED YOU ABOUT TRANSITIONING THE DEVELOPMENT OF THE AFIRS 228 IN HOUSE AND WE ARE PLEASED TO REPORT THAT THE CHANGE HAS WORKED OUT WELL FOR THE COMPANY, WITH 54 228B UNITS AND 6 228S UNITS BUILT LAST YEAR AND MOST OF THOSE UNITS HAVE BEEN DELIVERED TO PARTNERS AND CUSTOMERS IN THE YEAR.

It was also a positive year for delivery of AFIRS 220 with 41 of those being delivered to customers. We are also pleased to report that management expects that all of our AFIRS 220 inventory should be sold and delivered over the next few quarters and we will continue to support this amazing little device for many years to come.

The AFIRS 228S program is progressing rapidly as a result of, in part, our relationship with L-3 Communications ("L-3"). As announced early last year, we have a contract with L-3 Aviation Recorders ("L-3 AR") to deliver a certified product to the Airbus A320 production line as a customer option for factory install. This is a positive step forward for the Company and the product and represents the first of its kind opportunity for an Iridium based product in commercial aviation. We have followed this up with AFIRS 228B being installed on the factory floor at Bombardier for our Chinese customers. It can be done for any customer and we are working on increasing this presence in 2013.

AFIRS is in the aviation market, working and operating as it was designed to and while there is reduced investment required this year to compete certification, our mainline product is ready for market.

SALES AND MARKETING UPDATE

FLYHT'S COMMERCIAL AIR TRANSPORT GROUP TOOK A VERY FOCUSED SALES DRIVEN APPROACH TO THE MARKET IN 2012.

In 2011 FLYHT took upon itself to strengthen the brand position, landing on the positioning line - The Future of Connectivity. The group also revamped all of FLYHT's marketing materials and website to better reflect this new position and articulate key product features and benefits. The end result made it easier for existing and prospective clients to buy FLYHT's products and services. The early part of 2012 saw the Commercial group pursue a direct marketing campaign aimed at the five key markets where FLYHT has had previous success, which helped raise awareness of FLYHT and AFIRS within those markets. FLYHT also attended conferences around North America, such as; the Airlines Electronic Engineering Committee Conference, Aircraft Commerce IT Conference, Bombardier's All Aircraft Users Conference, Electronic Flight Bag Users Forum and the National Business Aviation Association Conference. Attending these conferences helps maintain FLYHT's industry profile, enables efficient lead nurturing and enables the Company to stay on top of industry trends and retain thought leadership.

In order to see immediate return on marketing and sales expenditures, the Commercial group spent most of the year cultivating relationships with existing clients and nurturing prospects that had already expressed interest in FLYHT's solutions. Considerable effort was also expended furthering commercial relationships with industry partners, which is elevating both how FLYHT is perceived in the market and also developing long-term revenue streams through well-established sales and fulfillment channels. In respect to developing geographic markets, the Commercial group furthered momentum in Africa by delivering greater services to Nigeria and expanding into Angola, South Africa, Kenya and Ethiopia.

Expanding our Footprint within Existing Customers

By delivering on our commitment of providing valuable connectivity solutions to our clients we have been able to expand our footprint within our existing customer base. Last year a quarter of the additional units contracted were to expanding existing clients' fleets.

Expanding our Footprint within Africa

FLYHT signed our first customer in Africa in the spring of 2008 and since then has continually expanded our presence. In 2011, FLYHT worked with the Nigerian Civil Aviation Authority ("NCAA") to establish an Operations Command Centre in Lagos to enhance aviation safety and improve overall operational awareness of civilian registered aircraft. In 2012, the NCAA took the country's safety capabilities to the next level when they adopted FLYHT's new Safety Management System Dashboard ("SMS Dashboard") that runs within the NCAA's headquarters. This new SMS Dashboard allows for real-time tracking of all Nigerian registered assets' flight profiles, increasing the NCAA's ability to see, measure and manage aviation risk using hard data.

In addition to adopting FLYHT's SMS Dashboard, the Director General for the NCAA gave Nigerian airlines an ultimatum to install equipment on board every aircraft in order to provide real-time tracking and exceedence notifications that can be monitored from anywhere a plane may be. FLYHT's AFIRS system is one hundred percent compliant with the requirements issued by the NCAA and, to date, FLYHT has six of the ten domestic carriers flying with AFIRS.

FLYHT's success and increased profile on the African continent has lead to further interest in operators in Angola, Kenya, Ethiopia and South Africa. To bolster the Company's sales efforts in Africa, FLYHT has joined International Air Transport Association ("IATA"), the African Airlines Association ("AFFRA") and the African Aviation Safety Council ("AFRASCO"), all of which are influential African Aviation organizations and key to relationship development. These organizations also offer advertising, trade show and public relations opportunities. In January of 2013, FLYHT had an article and full-page advertisement published in the premiere edition of African Aerospace. In the second quarter of 2013, the Commercial Air Transport group will be attending the AFRAA conference in Nairobi followed by direct sales calls to various African airlines in the following quarters.

Developing Long-term Channel and OEM Relationships

In May 2012, FLYHT furthered its relationship with L-3 AR, a division of L-3 Communications, when the Company signed an agreement to provide its AFIRS 228 to L-3's customers. In September of 2012, FLYHT achieved a major milestone in the Company's history when L-3 AR announced that it had signed an agreement with Airbus to certify and provide FLYHT's real-time data communications and SatCom solution technology for the installation on the Airbus A320 family of aircraft. Since this signing, FLYHT has been supporting L-3 and Airbus sales initiatives as per their request.

FLYHT continues to build its relationship with Bombardier Aerospace with the installation of AFIRS at their factory in Mirabel, Quebec. Six installations on CRJ900s have been completed to date by Bombardier for delivery to China Express Airlines.

Making Headway in the Military Market

FLYHT made headway in the military market with the cancellation of the United States' Aircraft Modernization Program for the C-130 aircraft. Even though the United States has cancelled the program due to budget cuts there still exists pent up demand across other nations that desire to have their C-130 aircraft modernized. Interest has been expressed among Aircraft Modernization Program bidders to use FLYHT's AFIRS for satellite communication and data solution in the C-130 markets. Based on the groundwork that was laid in 2012, FLYHT expects to see sales in this market come to fruition this year.

2012 MAJOR ANNOUNCEMENTS

Contracts: In 2012, the Company signed a total of four new contracts with customers worldwide. Seven of the contracted aircraft were for the AFIRS 220 and forty nine were for the new AFIRS 228.

March 5: The first activation Supplemental Type Certificate ("STC") for the AFIRS 228 on a CRJ-900 Series aircraft was received.

This activation STC is extremely important to FLYHT and its customer," said Jeff Brunner, VP of Operations at FLYHT. "The customer will now be able to use the AFIRS 228 functionality to receive data from the aircraft in flight as well as the full benefits of the system. The operator will be the first fully functional AFIRS 228 customer."

March 12: FLYHT's customers have logged one million flight hours of real-time flight analysis using AFIRS.

"One of FLYHT's measures of success is the number of flight hours of service provided to customers, so this is a major milestone," remarked Bill Tempany, President and CEO of FLYHT. "We want to thank our customers for their loyalty and assistance in making our services what they are today. We will continue to support them to improve their efficiency, profitability and safety through existing products and the introduction of new technologies."

March 27: The Company signed a contract with NetJets Europe to provide AFIRS 228 on thirty Hawker Beechcraft 750/800XP aircraft.

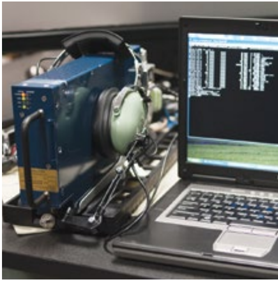
"NetJets Europe is the European leader in business aviation and we are proud to have met their standards and expectations through our collaborative in-service evaluation," said Bill Tempany, President and CEO of FLYHT.

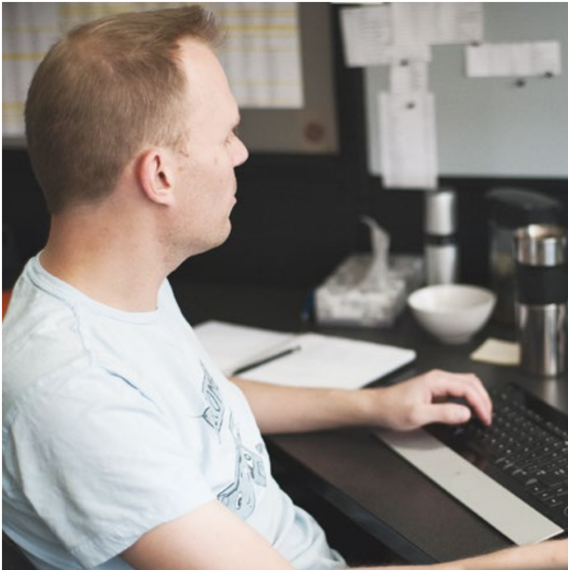
"FLYHT recognizes NetJets' commitment to safety, quality, and customer service. We look forward to serving NetJets Europe and its customers, enabling greater fleet productivity and safety."

April 20: FLYHT signed a contract with the Nigerian Civil Aviation Authority ("NCAA") to provide a Safety Management System Dashboard ("SMS Dashboard").

May 10: Shareholders approved the Company name change to FLYHT Aerospace Solutions Ltd. (at the Annual General Meeting held on May 9, 2012, and it was approved by the TSX Venture Exchange on May 17, 2012, the new ticker symbol on the TSX-V is "FLY".

May 22: The Company signed an agreement with L-3 Aviation Recorders ("L-3 AR") to sell, certify, produce and support FLYHT's real-time data communications and SatCom solution to L-3 AR customers. FLYHT and L-3 AR will provide FLYHT's AFIRS 228S to L-3 AR customers for installation on new aircraft. This solution offers customers the ability to provide voice and data communications anywhere in the world through the Iridium network. The AFIRS 228S will be provided under FLYHT's global Value Added Reseller agreement with Iridium.





AFIRS 228B
DATA MANAGEMENT UNIT
0050
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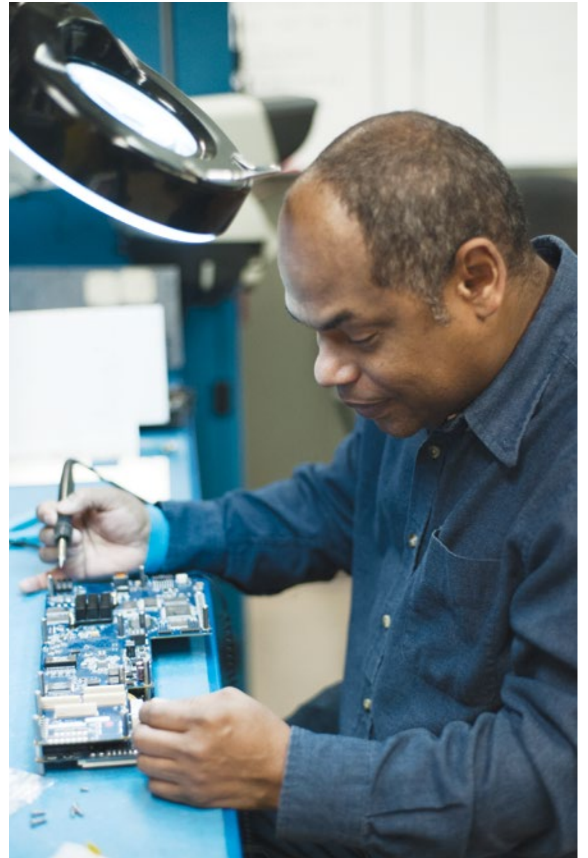
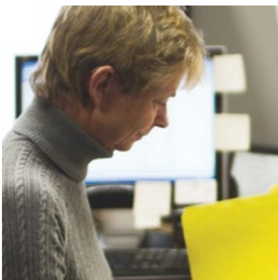
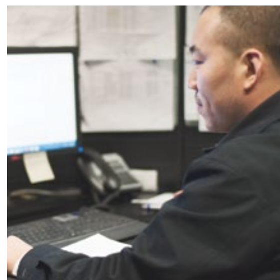
S/N
0056
SCN
FLYHT







July 19: A Verified Supplemental Type Certification ("VSTC") which will allow for the operation of AFIRS 228B in China on CRJ-900 aircraft was received.

"FLYHT has invested in the China market for more than eight years," comments President & CEO Bill Tempany. "This certification, in addition to the approval for bandwidth in China, gives a total solution to CRJ-900 operators desiring a method of compliance with the SatCom mandate in China. It is an important milestone in FLYHT's long term strategy to be the leader in SatCom connectivity in China."

September 4: An activation STC for the AFIRS 228 on Hawker Beechcraft 750/800XP/850XP/900XP series aircraft from the European Aviation Safety Agency ("EASA") was received. This is the Company's first European STC for the AFIRS 228.

"It's an exciting milestone for us, as it has taken two and a half years to reach this point," said President and CEO, Bill Tempany.

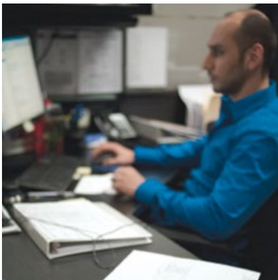
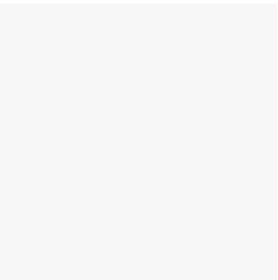
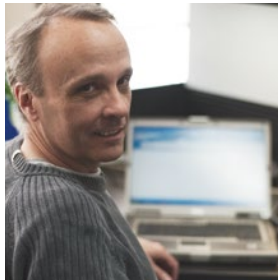
October 11: An activation STC for the AFIRS 228 on Boeing 747 - 200 series aircraft and a provisions only STC for the AFIRS 228 on the Boeing 767 - 200/300 series aircraft was received from Transport Canada.

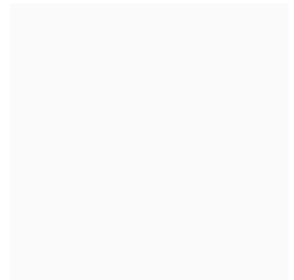
October 26: An activation STC for the AFIRS 228 on ATR 42/72 model aircraft was received from Transport Canada.

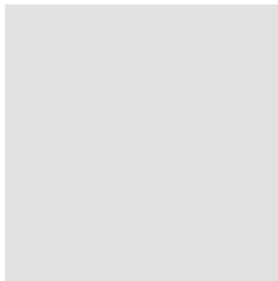
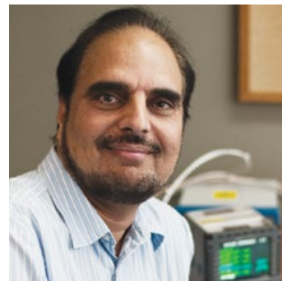
October 30: FLYHT's first factory installation on a CRJ900 was completed by Bombardier Aerospace for delivery to China Express Airlines. The CRJ900 is the second aircraft that was delivered with AFIRS onboard to China Express Airlines. In total, China Express Airlines has ordered six AFIRS units and the Company expects them to be fully operational by Q2 2013.

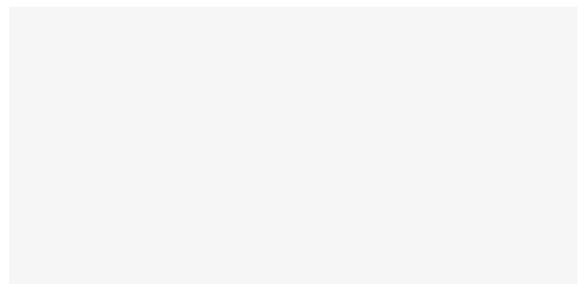
"Bombardier Aerospace Management in Mirabel took a decision this summer to install AFIRS STC on our production line in lieu of moving the aircraft to a third party to perform the installation," stated Nancy Crothers, CRJ Price & Offerability Commercial Aircraft Programs. "There has been outstanding support and service from FLYHT Aerospace Solutions to facilitate this action and we are very pleased with the decision to move this to a production line fit."

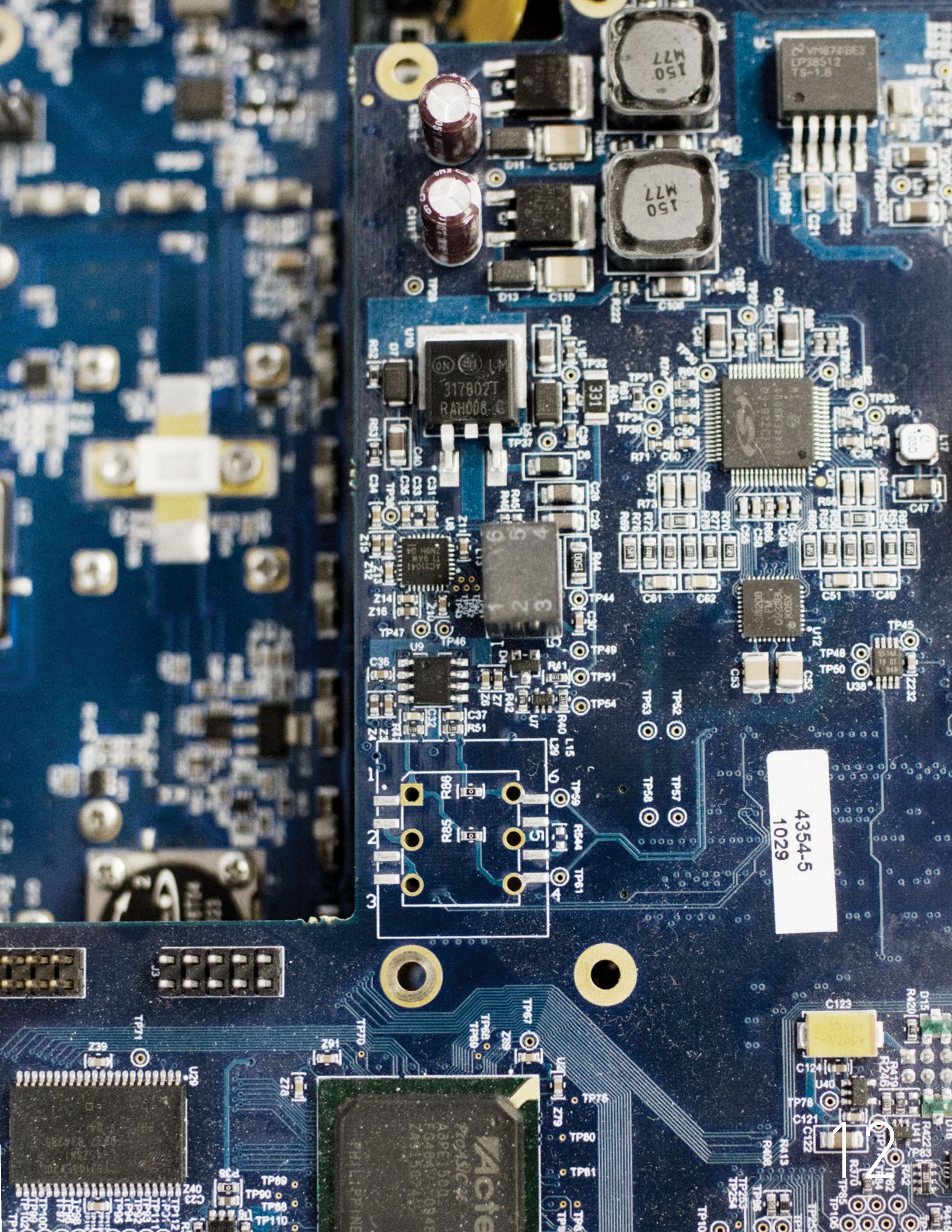
December 12: An activation STC for its AFIRS 228 on the Boeing 777 model aircraft was received from Transport Canada.



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TO OUR SHAREHOLDERS

When we chose last years theme of strengthening the foundation, we didn't fully appreciate what we were about to accomplish as a Company. We knew we would get the AFIRS 228 rolled out and generating revenue, we knew we would be building new products and services for our industry, and we knew we would be moving the yard stick forward on the way to becoming an industry recognized player. We did all that and so much more. This year gave us industry recognition: product completion, certification hurdling and corporate growth, it is nearly impossible to explain everything that was accomplished.

Our trustworthy AFIRS 220 product continues to bring us great returns. Between 2000 and 2005 we spent in the neighborhood of $2 million on development and certification of the AFIRS 220. Last year alone, the product brought in over $3 million in recurring revenue. We still have major component inventory to build approximately 60 units and it is anticipated that they will be delivered to customers over the next 18 months. The hardware revenue in the lifetime of the AFIRS 220 will exceed $15 million. In service life is likely to exceed 15 years for the unit and the new product and service options we are working on will increase the monthly revenue from those units already in service. Conservatively we will have 300 AFIRS 220 units in service for another 10 years which we anticipate in excess of $40 million in future revenue from existing contracts, providing all customers renew their contracts (which to date they all have been).

We believe the sky is the limit now if you take what we have invested in the AFIRS 228 and see who is embracing the technology (Airbus through L-3, Netjets, Nigeria, China, etc.) and project what the $13 million investment in that technology could bring. As we stated last year, 2012 was the year for strengthening the foundation, and that was accomplished. At the same time, we increased revenue by nearly 20% from $5.5 million to $6.5 million, and we received cash from customers of over $7.5 million. We also managed to reduce operating costs from $6.1 million in 2011 to $4.2 million last year, a reduction of $1.9 million or nearly 30%.

We appreciate the support and loyalty of our staff, investors and customers. 2013 will be the year we enhance our offerings both in airborne capabilities as well as ground services. Our partners are stronger than ever and our work to change global aviation to use our products and tools is well underway.

Here is to a prosperous and exciting 2013.

Bill Tempany, President and Chief Executive Officer

MANAGEMENT DISCUSSION & ANALYSIS

This management discussion and analysis ("MD&A") is as of April 9, 2013 and should be read in conjunction with the audited annual consolidated financial statements of FLYHT Aerospace Solutions Ltd. ("FLYHT" or the "Company") as at and for the years ended December 31, 2012 and 2011 and the accompanying notes. Additional information with respect to FLYHT can be found on SEDAR at www.sedar.com. The Company has prepared its December 31, 2012 consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). The Company's accounting policies are provided in note 3 to the consolidated financial statements.

NON-GAAP FINANCIAL MEASURES

The Company reports its financial results in accordance with IFRS or Generally Accepted Accounting Principles ("GAAP"). It also occasionally uses certain non-GAAP financial measures, such as working capital, modified working capital, and loss before research and development ("R&D"). FLYHT 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, because those customer deposits are nonrefundable. Loss before R&D is defined as the net loss before the direct costs associated with R&D. 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.

FORWARD-LOOKING STATEMENTS

This discussion includes certain statements that may be deemed "forward-looking statements" that are subject to risks and uncertainty. All statements, other than statements of historical facts included in this discussion, including, without limitation, those regarding the Company's financial position, business strategy, projected costs, future plans, projected revenues, objectives of management for future operations, the Company's ability to meet any repayment obligations, the use of non-GAAP financial measures, trends in the airline industry, the global financial outlook, expanding markets, R&D of next generation products and any government assistance in financing such developments, foreign exchange rate outlooks, new revenue streams and sales projections, cost increases as related to marketing, R&D (including AFIRS 228), administration expenses, and litigation matters, may be or include forward-looking statements. Although the Company believes the expectations expressed in such forward-looking statements are based on a number of reasonable assumptions regarding the Canadian, U.S., and global economic environments, local and foreign government policies/regulations and actions, and assumptions made based upon discussions to date with the Company's customers and advisers, such statements are not guarantees of future performance and actual results or developments may differ materially from those in the forward-looking statements.

Factors that could cause actual results to differ materially from those in the forward-looking statements include but are not limited to production rates, timing for product deliveries and installations, Canadian, U.S., and foreign government activities, volatility of the aviation market for FLYHT's products and services, factors that result in significant and prolonged disruption of air travel worldwide, U.S. military activity, market prices, foreign exchange rates, continued availability of capital and financing, and general economic, market, or business conditions in the aviation industry, worldwide political stability or any effect those may have on the Company's customer base. Investors are cautioned that any such statements are not guarantees of future performance, and that actual results or developments may differ materially from those projected in the forward-looking statements.

Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to have been correct. The Company cannot assure investors that actual results will be consistent with any forward-looking statements; accordingly, readers should not place undue reliance on forwardlooking statements. The forward-looking statements contained herein are current only as of the date of this document. The Company disclaims any intentions or obligation to update or revise any forward-looking statements or comments as a result of any new information, future event or otherwise, unless such disclosure is required by law.

OVERVIEW

FLYHT is a designer, developer and service provider of innovative solutions to the global aerospace industry and markets and sells its products under the FLYHT™ brand name. The Company's solutions are designed to improve the productivity and profitability of its customers and enable communication between pilots and ground support. FLYHT's tools deliver data from the aircraft to operations groups on the ground, on demand. The Company's products are available for commercial, business and military aircraft. FLYHT's emergency data streaming program, FLYHTStream™, can stream position reports and data from an aircraft in flight to ground support in real time.

FLYHT's products and services, featured below, are marketed globally by a team of employees and agents based in Canada, the United States, China, the United Kingdom, Ireland, Abu Dhabi, and Argentina.

AFIRS™ UPTIME™

FLYHT's Automated Flight Information Reporting System ("AFIRS™") is a device installed on aircraft and monitors hundreds of essential functions from the plane and the black box. AFIRS sends the information to the UpTime server on the ground, which stores and relays the data to the airline in real time. Airlines use this information to increase passenger safety, improve productivity, maximize efficiency and enhance profitability. In addition to its data monitoring functions, AFIRS provides voice and text messaging capabilities that give pilots the ability to communicate with ground support. FLYHT also builds value added applications for operators such as FLYHTStream™ and the FLYHT Fuel Management System that run on the AFIRS hardware and its UpTime servers. FLYHT offers global satellite coverage, providing service to whoever needs it, when they need it, anywhere on the planet.

The AFIRS 220 has been FLYHT's signature product since 2004. The unit has received regulatory certification for installation in approximately 30 widely used commercial aircraft brands and models.

FLYHT's new AFIRS device, the 228B, continues to demonstrate its value in the marketplace. Since October the AFIRS 228B's remote configurable intelligence, an industry first, successfully operated on a client's aircraft reporting as per their specifications. This feature of the 228 will become increasingly important as clients around the globe adopt the AFIRS 228 technology.

The 228 incorporates improvements over the 220 in several important areas: processing capacity, data transmission characteristics and programmability. The 228's features cater to the evolving needs of airlines by providing a flexible product that is programmed for the information they need. AFIRS 228 is an addition to FLYHT's product line, not a replacement for the 220. The Company will continue to sell its AFIRS 220.

FLYHTSTREAM™

On July 12, 2012 the BEA - the French Civil Aviation Safety Investigation Authority - published their final report on the June 1st 2009 accident of Air France flight AF 447 from Rio de Janeiro to Paris. In the report the BEA recommends "…that EASA and ICAO make mandatory as quickly as possible, for airplanes making public transport flights with passengers over maritime or remote areas, triggering of data transmission to facilitate localisation as soon as an emergency situation is detected on board".

FLYHT is the only aerospace company that has demonstrated the ability to fulfill the BEA's recommendation.

FLYHT's patent-pending technology FLYHTStream™ is a revolutionary new technology that performs real-time triggered alerting and black-box data streaming in the event of an emergency on the aircraft. FLYHTStream™ uses AFIRS' onboard logic and processing capabilities on the aircraft in combination with UpTime's ground-based servers to interpret and route alerts and messages from the aircraft in trouble to parties on the ground that need to know such as the airline, operation centers and regulators.

FLYHT FUEL MANAGEMENT SYSTEM

The FLYHT Fuel Management System is a powerful way to focus attention on areas of greatest savings potential automatically, and to provide the information necessary to make decisions about the operation. Most airlines currently rely on a system of reports, manually generated and analyzed to make fuel savings decisions within the operation. This is time-consuming and relies on the user to calculate areas of potential by cross-referencing a great number of queries. The FLYHT Fuel Management System is not just a report-generation tool; it is a dynamic, interactive application that answers key questions by generating alerts and providing the user with the ability to quickly identify trends. FLYHT designed this unique application that highlights exceptions to best practices, provides quick drill downs to spot the root cause of issues, and identifies trends. It is an intuitive tool that enables fuel managers to act on information instead of compiling and analyzing data.

FIRST

The Fuel Initiative Reporting System Tracker ("FIRST") is a tool that eliminates uncertainty about the effectiveness of an airline's fuel savings initiatives. FIRST can be purchased separately as a stand-alone module from the FLYHT Fuel Management System. It uses real-time flight data acquired from the aircraft's onboard systems, and presents the data to operations personnel in an easy to read dashboard. The dashboard compares how pilots are operating the aircraft to how they could be flying in order to maximize efficiency and fuel savings. Where compliance has not been met, associated costs are shown. The tool is de-identified to meet pilot union requirements, but can be filtered to display performance by pilot if desired.

Underfloor Stowage Unit

The Underfloor Stowage Unit offers the flight crew additional stowage space in the cockpit. With this addition, manuals are always within reach of the seated crew and are kept safe, dry and clean inside the stowage unit. In addition, safety equipment and other items required by the flight crew can be accessed any time throughout the flight without leaving the cockpit. The stowage unit is certified to be installed in Bombardier CRJ series, Challenger and DHC-8s and can also be installed in other aircraft types.

System Approvals

A Supplemental Type Certificate ("STC") is an airworthiness certification required to modify an aircraft from its original design and is issued by an aviation regulator. FLYHT's AFIRS equipment is an addition to an aircraft and therefore an STC is required prior to installation. FLYHT has received or applied for AFIRS product approvals from Transport Canada Civil Aviation ("TCCA"), the Federal Aviation Administration ("FAA") in the United States, the European Aviation Safety Agency ("EASA") in Europe, and the General Administration of Civil Aviation of China ("CAAC") for various aircraft models, depending on customer requirements.

FLYHT's expertise in airworthiness certification enabled it to join a select group of Canadian companies in October 2008 who are approved by TCCA as a Design Approval Organization ("DAO"). Very few organizations achieve DAO status because of the time and expertise required to meet TCCA standards. FLYHT's DAO status, along with the delegations it has received, allows the Company to obtain and revise its own STCs with minimal TCCA oversight. This speeds up the process by lessening waiting time, cost and reliance on contractors.

In addition to its DAO status, the Company also has three engineers on staff with delegated authority, allowing them to approve electrical and structural design aspects of an airworthiness certification. If an issue is encountered during the STC process, the delegated staff member(s) have the authority to approve necessary changes and continue the process without the involvement of an external party.

The process to receive a STC takes some time to complete, but always starts with an application for the STC through any one of TCCA, FAA or EASA. Generally, FLYHT starts the process with TCCA by opening an application with the regulator, after which an STC data package is created. The data package consists of the engineering documents that outline how the AFIRS equipment will be installed on the aircraft. Once the data package and first stage of approvals are granted by the regulator, ground and flight tests takes place. To fulfill the flight test requirement, FLYHT must have access to the appropriate type and model of aircraft. This is done in cooperation with an existing or potential customer. Once these tests are completed, FLYHT submits an activation data package to TCCA that enables the AFIRS unit to be integrated with the aircraft systems. If TCCA approves the submission, an STC is issued. To obtain an STC from another regulator, FLYHT prepares an application, which is sent through TCCA to the regulator such as FAA, EASA or CAAC along with the STC package previously approved by TCCA. The regulator reviews the package and issues the STC.

The time required for the approval process through TCCA varies depending on the aircraft and workloads. A general rule of thumb is about three months, with a minimum of another three months if an STC is required from another regulator such as FAA, EASA or CAAC.

FLYHT has received STC approvals for AFIRS 220 on the following aircraft:

- Airbus A319, A320, A321
- Airbus A330
- Boeing B737-200, 300, 400, 500
- Boeing B737-500, 600, 700, 800
- Boeing B757-200
- Boeing B767-200, 300
- Bombardier DHC-8-100, 200, 300, 400
- Bombardier CRJ100, 200, 400
- DC-10
- Fokker F100
- Hawker Beech 750, 850XP, 900XP
- Viking Air DHC-7 (LSTC)

FLYHT has received STC approvals for AFIRS 228 on the following aircraft:

- Bombardier CRJ-700, 900
- Hawker Beech 750, 850XP, 900XP
- Boeing B777
- ATR-42, 72
- Boeing 747-200

FLYHT has received provisions-only STC approvals for AFIRS 228 on the following aircraft and expects full STCs in 2013:

- Boeing B737 – 600, 700, 800
- Boeing 767 – 200, 300

FLYHT has STC applications in process for AFIRS 220 or 228, expected to be submitted in 2013, depending on market requirements, for the following aircraft:

- Airbus A319, 320, 321
- Boeing 747-400
- Embraer EMB – 135/145 (includes Legacy)
- McDonnell Douglas MD-81, 82, 83, 87, 88
- Boeing 737 Classics

In addition, the Company will be filing the necessary documents to obtain approval for the AFIRS 228 for a majority of currently approved 220 STCs, depending on market requirements over the next several years. Portions of those costs, including salaries and salary burden, will be covered by funding committed by Industry Canada in February 2011 under the Strategic Aerospace and Defence Initiative ("SADI") program.

TRENDS AND ECONOMIC FACTORS

The airline industry saw that the 5.3% increase in passenger demand was slightly down on the 2011 growth of 5.9% but above the 5.0% twenty-year average. Load factors for the year were near record levels at 79.1%. Demand in international markets expanded at a faster rate (6.0%) than domestic travel (4.0%)[1], freight traffic measured in Freight Tonne Kilometers ("FTK") grew by 6% in 2012. RPK and FTK measure passenger and freight contributions to airline revenue. These are significant measures to determine the health of the industry because the larger the increase, the more people are flying, suggesting growth in the industry.

Large commercial aircraft manufacturers recorded solid numbers for deliveries and new orders in 2012. Airbus delivered 588 commercial aircraft, an increase of 10% from 2011[2]. Boeing delivered 601 aircraft in 2012, a 26% increase from the previous year[3]. Embraer delivered 106 commercial jets in 2012[4]. Bombardier delivered 50 commercial aircraft, compared to 78 for the previous year. During this same period, the Company received 138 net orders for commercial aircraft, compared to 54 for the previous fiscal year[5]

On the business jet front, shipments increased by 0.6% from 2011, though billings declined slightly compared to 2011.[6] Embraer's business jet sales stayed the same with 99 deliveries in 2012 as compared to 2011.[7] Bombardier delivered 179 business jets, compared to 163 for the previous year. During this same period, the Company received 343 net orders for business jets, compared to 191 for the previous fiscal year.[8]

FLYHT continues to meet the needs of the aviation industry through the introduction of value-added information products and specialty services that build customer value and FLYHT revenues from existing and new installations. Key areas of concentration for the year are the certification of the AFIRS 228 in order to complete Aircraft Communications Addressing and Reporting System ("ACARS") over Iridium functionality; as well, the Company will work with Iridium Satellite Communications ("Iridium") on their voice trials for voice and data safety services messaging. The Company views these initiatives as enhancements to the industry and are steps to strengthen our revenue as we sell AFIRS 228 units and start to collect its recurring revenues.

FLYHT received customer payment for 18 installation kits in the fourth quarter of 2012 compared to 18 in the fourth quarter of 2011. In addition, revenue was recognized for 14 installation kits in the fourth quarter of 2012 compared to nine in the same period of 2011. For further explanation on how the Company recognizes revenue view the revenue recognition cycle on page 9.

The weakening of the Canadian dollar relative to the U.S. dollar during the fourth quarter of 2012 versus the same quarter of 2011 had a positive impact on the Company's revenue and income compared to the same quarter of 2011. As a result of these movements, the Company's revenues, which are substantially all denominated in U.S. dollars, were higher than they would have been had the foreign exchange rates not changed. It is the standard of the aviation industry to conduct business in U.S. dollars. While an amount of the Company's costs are denominated in Canadian dollars, a significant portion of the cost of sales, marketing and component costs are U.S. dollar denominated, and therefore create a natural hedge against fluctuations of the Canadian dollar.

1. http://www.iata.org/pressroom/pr/Pages/2013-01-31-01.aspx

2. http://www.airbus.com/newsevents/news-events-single/detail/airbus-beats-order-target-and-sets-new-company-delivery-records/

3. http://boeing.mediaroom.com/index.php?s=43&item=2576

4. http://www.embraer.com/Documents/noticias/003-Embraer%20Deliveries%204Q11-Ins-VPF-I-13.pdf

5. http://bombardier.com/en/corporate/media-centre/press-releases/details?docID=0901260d80285503

6. http://www.gama.aero/media-center/press-releases/content/gama-releases-2012-year-end-report-and-focuses-opportunities-and

7. http://www.embraer.com/Documents/noticias/003-Embraer%20Deliveries%204Q11-Ins-VPF-I-13.pdf

8. http://bombardier.com/en/corporate/media-centre/press-releases/details?docID=0901260d80285503

CONTRACTS AND ACHIEVEMENTS OF FISCAL 2012

Contracts

FLYHT Aerospace Solutions Ltd. signed a total of four contracts in 2012 for a total of 56 aircraft. We also signed an additional contract with the Nigerian Civil Aviation Authority to supply and support a Safety Management System Dashboard and L-3 Aviation Recorders.

In January, the Company signed its first contract of the year with what has become its largest Canadian customer for seven AFIRS 220 and 12 AFIRS 228B.

The Company signed a contract with NetJets Europe in March to install AFIRS 228 on 30 of the customer's Hawker Beechcraft 750/800XP aircraft. We have received the Transport Canada STC and can begin installations upon receipt of the EASA STC.

In April, the Company signed a contract with a Canadian charter airline for the AFIRS 228B on two Boeing 737-700 aircraft. The customer is FLYHT's ninth Canadian customer.

The relationship in Nigeria continued to expand in April when the Company signed an additional contract with the Nigerian Civil Aviation Authority to provide a Safety Management System Dashboard as an enhancement to the flight following system the Company installed in Lagos in 2011.

An agreement with L-3 Aviation Recorders ("L-3 AR") to sell, certify, produce and support FLYHT's AFIRS SatCom solution to their customer, Airbus for installation on new A320 and A350 aircraft was signed in May.

In October, FLYHT signed a contract with a Nigerian airline to install AFIRS 228 on five McDonnell Douglas MD-83 aircraft.

Achievements

- The first activation Supplemental Type Certificate ("STC") for the AFIRS 228 on a CRJ-900 Series aircraft was received.
- AFIRS units reached one million flight hours of real-time flight analysis on customers' aircraft in March. This is an important milestone for the Company and its customers and further establishes FLYHT's credibility in the industry.
- Shareholders approved a name change from AeroMechanical Services Ltd. to FLYHT Aerospace Solutions Ltd. On May 17, FLYHT received approval from the Toronto Stock Exchange to trade under the new symbol FLY.
- Between May 25 and July 4 (in multiple tranches) private placements at a price of $0.20 per unit totaling proceeds of $4,149,940 were closed.
- A full and final settlement of the outstanding litigation was reached in May with Star Navigation Systems Group Ltd. when the parties agreed to file dismissals of all outstanding claims and counterclaims.
- The first certification for the AFIRS 228 deployment in China from the Civil Aviation Authority of China was received.
- The Howard Group Inc. was appointed as investor relations advisors effective September 1, 2012.
- The European certification was received for the AFIRS 228 for the Hawker Beechcraft 750/800XP/850XP/900XP series aircraft from the European Aviation Safety Agency. This approval allowed for the immediate activation of the AFIRS technology on the NetJets Europe Hawker fleet.
- The Transport Canada activation STC for the AFIRS 228 on Boeing 747 -200 series aircraft was received.
- The Transport Canada activation STC for the AFIRS 228 on ATR 42/72 model aircraft was received.
- The first factory installation on a CRJ900 was completed by Bombardier Aerospace on a China Express Airlines aircraft.
- The Transport Canada activation STC for the AFIRS 228 on Boeing 777 model aircraft was received.
- Bristol Capital Ltd. was appointed as investor relations advisors in December effective January 1, 2013.

RESULTS OF OPERATIONS
YEAR ENDED DECEMBER 31, 2012 AND 2011

Quarterly Results

	Q4 2012 $	Q3 2012 $	Q2 2012 $	Q1 2012 $
AFIRS UpTime sales	1,063,933	555,413	581,290	264,148
AFIRS UpTime usage	774,657	799,872	756,705	760,392
Parts	85,138	48,591	19,168	49,523
Services	296,673	145,885	227,312	41,106
Revenue	**2,220,401**	**1,549,761**	**1,584,475**	**1,115,169**
Loss	621,446	133,102	1,954,303	2,174,901
Loss before R&D	40,436	290,563	1,183,274	961,742
Loss per share (basic & fully diluted)	0.00	0.00	0.02	0.02

	Q4 2011 $	Q3 2011 $	Q2 2011 $	Q1 2011 $
AFIRS UpTime sales	714,476	369,604	377,607	262,655
AFIRS UpTime usage	756,554	734,964	740,471	719,773
Parts	90,659	5,829	62,849	41,871
Services	42,952	329,798	119,984	97,153
Revenue	**1,604,641**	**1,440,195**	**1,300,911**	**1,121,452**
Loss	2,083,371	1,576,944	1,397,442	1,485,292
Loss before R&D	1,213,147	458,777	841,827	702,805
Loss per share (basic & fully diluted)	0.02	0.01	0.01	0.01

Liquidity and Capital Resource

The Company's cash at December 31, 2012 decreased to $676,246 from $1,928,065 at December 31, 2011. The Company has an available operating line of $250,000 that was undrawn as at December 31, 2012. The operating line bears an interest rate of Canadian chartered bank prime plus 1.5%, and is secured by assignment of cash collateral and a general security agreement.

At December 31, 2012, the Company had negative working capital of $2,772,247 compared to negative $2,947,863 as of December 31, 2011, an improvement of $175,616. Neither customer deposits, nor the current portion of unearned revenue are refundable, and if those two items are not included in the working capital calculation, the resulting modified working capital at December 31, 2012 would be positive $742,068 compared to negative $327,224 at December 31, 2011.

The Company funded 2012 operations primarily through cash received from sales, the proceeds of private placements, and funding received through the SADI grant program. If the costs associated with R&D were factored out, there would have been an increase in cash of $1,184,635. It is expected that R&D expenses will continue to decrease as the AFIRS 228 project approaches completion. In addition, the resulting increase in cash inflows from sales will reduce the requirement for further funding. The Company believes that if funding is required to meet cash flow requirements in 2013 until the AFIRS 228 is fully functional, it will be able to do so either through debt or equity instruments.

	December 31, 2012 $	December 31, 2011 $	Variance $
Cash and cash equivalents	676,246	1,928,065	(1,251,819)
Restricted cash	250,000	250,000	-
Trade and other receivables	1,209,497	680,886	528,611
Deposits and prepaid expenses	99,464	199,076	(99,612)
Inventory	1,663,918	975,298	688,620
Trade payables and accrued liabilities	(3,658,254)	(4,903,537)	1,245,283
Unearned revenue	(2,717,245)	(1,639,684)	(1,077,561)
Loans and borrowings	(271,832)	(384,815)	112,983
Finance lease obligations	(19,963)	(48,715)	28,752
Current tax liabilities	(4,078)	(4,437)	359
Working capital	**(2,772,247)**	**(2,947,863)**	**175,616**
Unearned revenue	2,717,245	1,639,684	1,077,561
Customer deposits	797,070	980,955	(183,885)
Modified working capital	**742,068**	**(327,224)**	**1,069,292**

As of December 31, 2012, the Canadian equivalent of the Company's outstanding accounts payable to Sierra Nevada Corporation ("SNC") was $1,790,571 (December 31, 2011: $1,831,965) relating to their involvement with the development of the AFIRS 228. If this amount was removed from the working capital it would be negative $981,676 at December 31, 2012 and negative $1,115,898 at December 31, 2011. As well, the modified working capital would be a positive $2,532,639 at December 31, 2012 and positive $1,504,741 at December 31, 2011. As reported in the 2010 Annual Report the development effort for the AFIRS 228 program was split into four general modules: (1) hardware, (2) board support software (both developed by a Calgary contractor), (3) Embedded Logic Applications ("ELA") (developed by FLYHT staff in Calgary), and (4) core software (the responsibility of SNC). Late in 2010, it was recognized by management that progress on the AFIRS 228 program was on track for year end delivery of the hardware, board support software and ELA. However, time estimates to complete the core software continued to slip and costs had escalated. In the third quarter of 2011, management of FLYHT reviewed the state of the core software development with SNC in order to develop a plan and prepare for the transition from a SNC deliverable to FLYHT maintained software. It was determined by management that the best course of action to successfully complete the 228 in a timely fashion was to repatriate the core software development to Calgary and build a team around the existing resources of FLYHT's Calgary based contractors and staff. The transition occurred in February 2011, and as anticipated, the first customer test flight was completed before the end of 2011. Full certification has begun to meet the timelines required by our current customers and prospects. The current accounts payable amount outstanding of $1,790,571 is presently under dispute in the courts. See the Contingency section on page 33 for further clarification.

In four tranches in June and July 2012, the Company issued 20,749,700 share units pursuant to a combination of brokered and non-brokered private placements at $0.20 per share unit resulting in gross proceeds of $4,149,940. Each share unit consists of one common share and one-half share purchase warrant. Each full share unit warrant entitles the holder to acquire one common share at a price of $0.30 until 24 months after the issue date of the share purchase warrant. As at December 31, 2012 share purchase warrants outstanding totaled 10,374,850 from the four tranches: 4,595,750 will expire June 22, 2014; 1,437,500, June 27, 2014; 1,889,100, June 29, 2014 and 2,452,000 July 4, 2014. The net cash proceeds after issuance costs of the brokered and non-brokered private placements totaled $3,784,367. A further 1,223,509 agent warrants were issued which entitle the holder to acquire one common share at a price of $0.20 until 24 months after the issue date of the agent warrant. The expiry details are: 606,935, June 22, 2014; 8,750, June 27, 2014; 264,474, June 29, 2014; and 343,350 July 4, 2014.

On September 27, 2012, the Company issued 1,000,000 common shares at $0.20 per share in connection with a non brokered private placement resulting in gross proceeds of $200,000. The net cash proceeds after issuance costs was $198,115.

An additional 6,000 common shares were issued to directors, officers, employees and consultants on the exercise of options. The weighted average exercise price of these common shares was $0.25, resulting in cash proceeds of $1,500.

As at April 9, 2013, FLYHT's issued and outstanding share capital was 140,386,166.

The achievement of positive earnings before interest and amortization is necessary before the Company can improve liquidity. The Company has continued to expand its cash flow potential through its continued marketing drive to clients around the world. Management believes that the Company's installation momentum, conversion of installations to recurring revenue, new revenue streams, and ongoing sales will be sufficient to meet standard liquidity requirements going forward. To continue as a going concern, the Company will need to attain profitability and/or obtain additional financing to fund ongoing operations. If general economic conditions or the financial condition of a major customer deteriorates, then the Company may have to scale back operations to create positive cash flow from existing revenue and/or raise the necessary financing in the capital markets. It is the Company's intention to continue to fund operations by adding revenue and its resulting cash flow as well as continue to manage outgoing cash flows. If the need arises due to market opportunities, the Company may meet those needs via the capital markets. These material uncertainties may cast significant doubt upon the Company's ability to continue as a going concern.

Risks and Uncertainties

FLYHT operates in the aviation industry and part of the business involves risks and uncertainties. The Company takes steps to manage these risks, though it is important to identify risks that could have a material effect on business or results of operations. Such risks are listed below. The areas defined are not inclusive.

Installations at c-checks

The Company's product, AFIRS 220, can take approximately 200 person-hours or more to install on an aircraft, depending on the aircraft type and crew. Since the box needs a longer period to be installed, the installation is usually scheduled when the aircraft is undergoing its routine c-check or scheduled maintenance. The timing of c-checks depends on how many segments the aircraft has flown and is based on the manufacturer's guidelines, though it can take as long as two or three years before an aircraft is out of service for an extended period. Waiting for a c-check for AFIRS installation is a risk to the Company because it results in a delay in initial revenue from the sale of the box and the Company does not receive recurring revenue connected with the monthly service offerings until the device is installed and running.

The Company takes steps to mitigate this risk by encouraging customers to install AFIRS at their aircraft's earliest availability and works with them to provide the box at the right time for installation, preferably while the aircraft is down for normal service. The goal is to reduce aircraft downtime and save the customer as much money as possible. Another risk mitigation tool used by the Company is to offer special discounts to airlines that pay for all units up front. This discount decreases FLYHT's gross margin slightly, but allows the Company to bring in cash immediately after signing an agreement. As well, the terms of the Company's standard agreement states that payment is due a minimum of 45 days prior to the shipment of kits.

The Company does a majority of its business in U.S. dollars so there is a risk of currency fluctuation. The majority of the Company's costs are denominated in Canadian dollars, though a significant portion of costs of goods sold and distribution costs are U.S. dollar denominated, and therefore create a natural hedge against fluctuations of the Canadian dollar.

General economic and financial market conditions

In an industry, such as the aviation industry, finances are tied to global trends and patterns. Since the economic recession in 2008, all sectors including the commercial sector have slowed down. As an airline's spending is tied to their income, they may be unwilling or unable to spend money, particularly on a value-added product such as AFIRS.

In order to address this risk, the sales team has developed a number of strategies. One strategy the Company has achieved is a global sales presence. FLYHT has established sales agents on every continent. While some economies of the world may be in a bit of a slump or downturn, there is a place for FLYHT in growing markets. FLYHT also demonstrates to potential customers its impressive return on investment model, how quickly potential customers can improve operational efficiency, and ultimately how much money AFIRS will save them.

Dependence on key personnel and consultants

FLYHT's ability to maintain its competency in the industry is dependent on maintaining a specially skilled workforce. The Company's Design Approval Organization status, delegated by TCCA, enables a smooth implementation of STCs, required to install AFIRS on aircraft. Key staff, with TCCA delegation status, enable the Company to complete STCs in a timely and cost efficient manner. The Company has worked hard over the past few years to distribute the specified knowledge among a number of key individuals. This reduces risk and ensures the Company can still function effectively were it to lose specialized staff.

Dependence on new products

Over the past few years, the Company has been in the R&D stage of its next generation product, AFIRS 228. FLYHT is confident all the right information has been gathered and that the product does fill a gap in the industry. The Company has already closed a number of AFIRS 228 sales. However, the Company's success will ultimately depend on the success of the product, once the final version of the product has been released to the market.

Availability of key supplies

FLYHT produces and builds all AFIRS units in-house. The Company relies on partners, suppliers and special parts to build the units. Certain parts can be delayed in shipping or availability, which can cause a delay in building the AFIRS box. FLYHT aims to avoid the risk of not having the necessary supplies by managing inventories and storing extra key parts. Additionally, the Company maintains close communication with its partners and suppliers to ensure all key components for the AFIRS device will be available into the future.

Proprietary protection

Patent rights are extremely important to the continuation of the Company because the AFIRS technology is the Company's primary revenue source. The Company relies on contract, copyright and trademark laws, and has received patents from the United States, China, Turkish and European patent offices. These patents are generally respected in other international jurisdictions as well. The risks involved with proprietary protection lie with other companies claiming patent infringement, though the Company has defended patent claims in court and been successful. FLYHT conducted due diligence on its technology and the conditions of its patent before applying, and maintains that it holds unique characteristics from other technologies in the marketplace and does not infringe on the rights of any third parties.

Revenue recognition cycle

FLYHT's revenue recognition occurs in a series of steps. The process begins with the receipt of customer deposits, shipment, installation and finally usage of the AFIRS product.

Customers are required to pay for installation kits prior to the planned shipment date. This prepayment is recorded as a customer deposit, which is recognized as an accrued liability upon receipt. Upon shipment of an installation kit, the customer deposit is reclassified to unearned revenue, where it will remain until the AFIRS UpTime solution has been installed and is fully functional, at which point the installation kit is recognized as AFIRS UpTime sales revenue.

When customers order spare parts or Underfloor Stowage Units a prepayment is required, which is recorded as a customer deposit. When the shipment of the ordered part or unit occurs, the customer deposits are recognized as revenue.

Customer deposits

Customer deposits are amounts received for AFIRS UpTime sales and parts that have not yet been shipped to the customer, and services that have not yet been completed. These deposits are nonrefundable, and are included on the Statement of Financial Position ("SFP") in trade payables and accrued liabilities.

The chart below outlines the movement in the Company's customer deposits throughout the periods ending December 31, 2012 and 2011. Payment was received for 17 installation kits in the fourth quarter of 2012, compared to 11 received in the fourth quarter of 2011, bringing 2012 year-to-date ("YTD") total payments for installation kits to 78, compared to a total of 39 in 2011.

	Q4 2012 $	Q4 2011 $	Variance $	YTD 2012 $	YTD 2011 $	Variance $
Opening balance	1,033,613	1,252,490	(218,877)	980,955	527,457	453,498
Payments received from customers	763,366	288,793	474,573	3,262,045	1,592,786	1,669,259
Moved to unearned revenue	(999,909)	(560,328)	(439,581)	(3,445,930)	(1,139,288)	(2,306,642)
Balance, December 31	**797,070**	**980,955**	**(183,885)**	**797,070**	**980,955**	**(183,885)**

Unearned revenue

The chart below outlines the movement in the Company's unearned revenue throughout the periods ending December 31, 2012 and 2011. Revenue was recognized for 26 installation kits in 2012's fourth quarter compared to 16 in the fourth quarter of 2011. Revenue was recognized for 59 installation kits in 2012, as compared to 39 in 2011. In 2012, 71.1% of the unearned revenue balance at December 31, 2011 was recognized as earned revenue (2011: 54.9%).

	Q4 2012 $	Q4 2011 $	Variance $	YTD 2012 $	YTD 2011 $	Variance $
Opening balance	2,741,596	2,166,725	574,871	1,897,204	2,831,878	(934,674)
AFIRS UpTime sales: shipped, not accepted	999,909	560,328	439,581	3,445,930	1,139,288	2,306,642
AFIRS UpTime usage: prepaid	116,694	40,796	75,898	376,981	113,752	263,229
AFIRS UpTime sales: revenue recognized	(1,063,933)	(777,129)	(286,804)	(2,464,784)	(1,810,540)	(654,244)
AFIRS UpTime usage: revenue recognized	(12,641)	(29,136)	16,495	(280,566)	(119,654)	(160,912)
License fees: revenue recognized	(64,380)	(64,380)	-	(257,520)	(257,520)	-
Balance, December 31	**2,717,245**	**1,897,204**	**820,041**	**2,717,245**	**1,897,204**	**820,041**

Revenue

For the revenue categories listed in the Revenue sources chart, AFIRS Uptime sales includes the income from an AFIRS hardware sale as well as the parts required to install the unit. AFIRS Uptime usage is the recurring revenue from customers' usage of data they receive from AFIRS and use of functions such as the satellite phone. Parts revenue includes the sale of spare AFIRS units, spare installation parts, and Underfloor Stowage Units. Services revenue includes technical services, repairs, and expertise the Company offers such as the installation of operations control centres, including two FLYHT set up in Nigeria.

Overall, total revenue increased 18.3% from $5,467,199 in 2011 to $6,469,806 in 2012. AFIRS Uptime sales increased by 42.9%, AFIRS Uptime usage increased by 4.7%, Parts sales increased by 0.6%, and Services revenue increased by 20.5%. Fourth quarter revenue increased 38.4% from $1,604,641 in Q4 2011 to $2,220,401 in Q4 2012, due to increases in AFIRS Uptime sales of 48.9%, AFIRS Uptime usage of 2.4% and Services revenue of 590.7%. These increases were partially offset by a 6.1% decrease in Parts sales.

The Company has two types of revenue streams relating to AFIRS equipment depending on the type of service agreement: rental and sales. In accordance with the Company's revenue recognition policy for rental type agreements, the arrangement consideration is deferred as unearned revenue and revenue is recognized over the initial term of the contracts. At December 31, 2012, there was one customer with a rental type contract (2011: two customers). 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. Under both forms of agreement, UpTime usage fees are recognized as the service is provided based on actual customer usage each month. The amounts recorded in unearned revenue are nonrefundable.

Revenue sources

	Q4 2012 $	Q4 2011 $	Variance $	YTD 2012 $	YTD 2011 $	Variance $
AFIRS UpTime sales	1,063,933	714,476	349,457	2,464,784	1,724,342	740,442
AFIRS UpTime usage	774,657	756,554	18,103	3,091,626	2,951,762	139,864
Parts	85,138	90,659	(5,521)	202,420	201,208	1,212
Services	296,673	42,952	253,721	710,976	589,887	121,089
Total	**2,220,401**	**1,604,641**	**615,760**	**6,469,806**	**5,467,199**	**1,002,607**

The Company's long-term investment in marketing and relationship building has created a strong pipeline of prospective clients around the world. The revenue breakdown based on geographical location is displayed in the next table. Recurring revenue accounted for 47.8% of revenue in 2012, compared to 54.0% in 2011. Approximately 34.9% of the Company's revenue in the fourth quarter of 2012 was recurring, compared to 47.1% in the fourth quarter of 2011. Recurring revenue as a percentage of overall revenue will fluctuate from period to period depending on the mix of revenue during each period. Recurring revenue from FLYHT's existing client base is expected to continue to expand throughout 2013 and future years.

Geographical sources of revenue

The following revenue split is based on the geographical location of customers.

	Q4 2012 $	Q4 2011 $	YTD 2012 $	YTD 2011 $
North America	1,162,883	630,614	3,522,317	2,469,888
South/Central America	87,861	110,622	472,850	452,334
Africa/Middle East	817,314	585,457	1,729,862	1,787,817
Europe	13,036	3,229	150,247	133,246
Australasia	135,363	105,397	520,843	440,408
Asia	3,944	169,322	73,687	183,506
Total	**2,220,401**	**1,604,641**	**6,469,806**	**5,467,199**

	Q4 2012 %	Q4 2011 %	YTD 2012 %	YTD 2011 %
North America	52.3	39.2	54.5	45.1
South/Central America	4.0	6.9	7.3	8.3
Africa/Middle East	36.8	36.5	26.7	32.7
Europe	0.6	0.2	2.3	2.4
Australasia	6.1	6.6	8.1	8.1
Asia	0.2	10.6	1.1	3.4
Total	**100.0**	**100.0**	**100.0**	**100.0**

Gross Profit and Cost of Sales

FLYHT's cost of sales include the direct costs associated with specific revenue types, including the AFIRS unit, installation kits, training and installation support, as well as associated shipping expenses and travel expenses for the Company's engineering personnel on-site installation support. Installations on aircraft are performed by third parties at the customer's expense. Cost of sales as a percentage of revenue in the fourth quarter of 2012 was 34.1% compared to 59.8% in 2011's fourth quarter. A review of the annual results shows the cost of sales as a percentage of revenue also decreased from 46.0% in 2011 to 42.8% in 2012. The decrease was due to a difference in the mix of revenue sources, as AFIRS Uptime usage, Parts sales, and Services have higher margins than AFIRS Uptime sales. Gross margin will fluctuate quarter over quarter depending on customer needs and corresponding with the revenue type.

Gross margin for the last eight quarters was:

Period	Gross Profit
Q4 2012	65.9%
Q3 2012	60.1%
Q2 2012	43.7%
Q1 2012	54.8%
Q4 2011	40.2%
Q3 2011	62.7%
Q2 2011	59.8%
Q1 2011	56.0%

Operating Activities

Other income

Other income consists of the recognition of the SNC license fee that was deferred as unearned revenue when received, and is being recognized over the initial five-year term of the agreement. See Contingency section on page 33.

Distribution expenses (recovery)

Consist of overhead expenses associated with the delivery of products and services to customers, sales and marketing.

Major Category	Q4 2012 $	Q4 2011 $	Variance $	YTD 2012 $	YTD 2011 $	Variance $
Salaries and benefits	463,650	538,331	(74,681)	1,829,053	1,790,460	38,593
Share based compensation	(40,645)	1,082	(41,727)	95,458	84,815	10,643
Contract labour	120,945	196,474	(75,529)	559,096	770,297	(211,201)
Office	81,078	92,513	(11,435)	345,648	335,959	9,689
Travel	65,429	87,955	(22,526)	315,797	260,500	55,297
Equipment & maintenance	5,369	9,314	(3,945)	31,820	55,931	(24,111)
Depreciation	13,281	-	13,281	52,956	-	52,956
Marketing	12,550	44,572	(32,022)	61,773	102,104	(40,331)
Other	12,987	102,422	(89,435)	69,604	94,863	(25,259)
Total	**734,644**	**1,072,663**	**(338,019)**	**3,361,205**	**3,494,929**	**(133,724)**

Salaries and benefits increased in 2012 as compared to 2011 mainly due to increased staffing requirements to meet ongoing needs of existing and future customers. The resulting overall increased costs were allocated between distribution and research and development expenses as a portion of the increased staff's efforts have been engaged in developing the AFIRS 228 and were expensed in Research and Development. The decrease in salaries and benefits in the fourth quarter 2012 when compared to Q4 2011 is the result of a greater allocation to research and development in Q4 2012.

Share based compensation decreased in the quarter due to a decrease in the calculated fair value per share of unvested options, while increasing for the full year 2012 due to higher level of option grants to an increased base of distribution-related staff and an increased calculated fair value per share.

Contract labour decreased compared with the same periods last year. There has been a reduction in contractors supplying distribution related services.

Office expenses increased on an annual basis from 2011 to 2012 due to several factors, including increases of $6,513 in postage and courier costs as the result of a new marketing campaign in early 2012, $3,674 in training expenses, $1,228 in additional membership fees for industry groups with whom FLYHT has become involved with, and an increased rent allocation of $10,186. Offsetting these increases was a decreased allocation of communication service costs. Quarterly differences were due to a decrease in memberships of $988, decreased allocation of communication services of $4,215, decreased postage and courier costs of $1,759, and a decreased rent allocation of $2,610. The allocation differences do not represent a change in FLYHT's overall expense.

Travel expenses increased in 2012 versus 2011 largely as the result of increased travel and meals associated with sales activities. The decrease in the fourth quarter versus the same quarter of 2011 was the result of the fluctuation in travel that occurs on a quarterly basis dependent on the need to have face to face meetings with potential customers. It is anticipated that as the AFIRS 228 is rolled out, travel expenses will continue to increase on an annual basis and quarterly fluctuations will continue to occur.

Equipment and maintenance decreases throughout 2012 were due to costs associated with the movement of the UpTime hosting centre in 2011 to accommodate growth in the installation base that was not repeated in 2012. This decrease is partially offset in the fourth quarter by increased maintenance and costs associated with supporting the growth that prompted the 2011 move.

Depreciation expense increased in the quarter and throughout 2012 due to an allocation between cost centers. FLYHT's total depreciation decreased in 2012 versus 2011 by $39,922 and in the fourth quarter by $13,641 due to a decrease in the need to acquire capital equipment.

Marketing expenses decreased in the quarter and throughout 2012, due to the reduced requirement for marketing collateral throughout 2012, as well as a reduction in the number of tradeshows attended. The Company has analyzed the effectiveness of tradeshows and has targeted the most beneficial to the business objectives of the Company.

Other expenses decreased from 2011 to 2012 due to differences in bad debt adjustments. An increase in reserve of $102,078 in Q4 2011 was the result of the Chapter 11 steps taken by three customers in the first quarter of 2012, whereas the adjustment made in Q4 2012 for potential bad debt amounted to $12,897.

Administration expenses

Consist of expenses associated with the general operations of the Company that are not directly associated with delivery of services or sales.

Major Category	Q4 2012 $	Q4 2011 $	Variance $	YTD 2012 $	YTD 2011 $	Variance $
Salaries and benefits	359,289	403,627	(44,338)	1,253,401	1,208,138	45,263
Share based compensation	13,075	673	12,402	227,808	149,343	78,465
Contract labour	48,608	15,126	33,482	112,366	77,525	34,841
Office	78,561	71,965	6,596	324,465	312,217	12,248
Legal fees	15,169	76,863	(61,694)	142,378	173,895	(31,517)
Audit and accounting	21,550	27,549	(5,999)	104,855	129,086	(24,231)
Investor relations	33,250	25,845	7,405	93,709	135,443	(41,734)
Brokerage, stock exchange, and transfer agent fees	1,941	1,464	477	26,961	29,174	(2,213)
Travel	38,319	25,401	12,918	106,586	74,713	31,873
Equipment and maintenance	15,419	24,220	(8,801)	57,844	60,960	(3,116)
Depreciation	7,240	39,769	(32,529)	28,874	144,137	(115,263)
Other	7,608	10,157	(2,549)	17,522	22,880	(5,358)
Total	**640,029**	**722,659**	**(82,630)**	**2,496,769**	**2,517,511**	**(20,742)**

Salaries and benefits increased throughout 2012 compared with 2011, mainly due to an increased number of employees hired in the later portion of 2011 in the operations group to meet increased operations and production requirements who were employed by the Company throughout 2012. Salaries decreased in Q4 2012 as compared to the same period of 2011 due to the reduction of a full time investor relations ("IR") staff member, replaced by the reengagement of an IR consultant in late 2012.

Share based compensation increased in the quarter and in 2012 as compared to 2011 due to a higher level of option grants combined with an increase in the calculated fair value per share. This was combined with the recognition in 2012 of the partial vesting of options granted to an investment relations advisor in the fourth quarter of 2012.

Contract labour increased due to the engagement in mid-2012 of a consultant working to identify new corporate opportunities, which was offset as the result of the rebuild of FLYHT's website in 2011 that was not repeated in 2012, along with the decreased need for support relating to the conversion to IFRS.

Office expenses increased in both the fourth quarter and year over year from 2011 to 2012. The quarter's increase was due to increased memberships in industry groups of $3,374, increased insurance premiums of $6,393 and an increased rent allocation of $2,435, offset mainly by decreased office supplies of $2,567, decreased training costs of $1,387 and decreased communication costs of $1,814. Increases in 2012 included insurance expense of $18,072, an increased allocation of communication costs of $5,185, increased memberships in industry groups of $4,093 and increased training expenses of $2,302, offset by decreases of $13,530 in office supplies and a decreased rent allocation of $2,916.

Legal fees decreased in 2012 compared to 2011, mainly due to the Q2 2012 closure of legal proceedings with the Toronto-based company. This was partially offset by an increase due to legal services required with regards to research on international business processes and the implementation of the appropriate policies and documentation, along with the legal documentation required as a result of FLYHT's legal name change, and legal services required for closure of legal proceedings.

Audit and accounting expense decreases are due to the requirement for increased support during the 2011 transition to IFRS that was not needed in 2012, together with a decrease in audit fees.

Investor relations expenses decreased during 2012 as compared to 2011 due to the disengagement in early 2012 of IR consultants used in 2011 and the focus on using internal resources. The expense increased in the fourth quarter of 2012, due to the reengagement of an IR consultant near the end of 2012.

Travel expenses increased in the quarter and throughout 2012 compared to 2011 as a result of increased travel related to investor relations, and related to operations staff attendance at industry meetings. It is anticipated that with the roll out of an investor outreach program in conjunction with the engagement of an investor relation advisor, travel expenses will increase over future quarters.

Equipment and maintenance decreases are due to the decreased requirement for maintenance on administrative-related equipment in 2012, including the fourth quarter.

Depreciation expense decreased in the quarter and throughout 2012 due to an allocation between cost centers. FLYHT's total depreciation decreased in 2012 versus 2011 by $39,922 and in the fourth quarter by $13,641 due to a decrease in the need to acquire capital equipment.

Research and development expenses (recovery)

Major Category	Q4 2012 $	Q4 2011 $	Variance $	YTD 2012 $	YTD 2011 $	Variance $
Salaries and benefits	302,017	376,053	(74,036)	1,544,718	1,333,410	211,308
Share based compensation	-	-	-	12,615	6,780	5,835
Contract labour	68,135	682,396	(614,261)	1,265,032	2,373,009	(1,107,977)
Office	35,261	64,423	(29,162)	303,740	101,826	201,914
Travel	14,278	8,714	5,564	60,419	78,940	(18,521)
Equipment & maintenance	13,423	17,831	(4,408)	48,704	147,314	(98,610)
Components	65,908	204,076	(138,168)	63,267	354,693	(291,426)
Government grants	44,870	(489,285)	534,155	(585,705)	(721,683)	135,978
SRED credit	31,512	-	31,512	(327,438)	(355,982)	28,544
Depreciation	5,607	-	5,607	22,385	-	22,385
Other	-	6,016	(6,016)	-	8,186	(8,186)
Total	**581,011**	**870,224**	**(289,213)**	**2,407,737**	**3,326,493**	**(918,756)**

Salaries and benefits expended on research and development decreased throughout the fourth quarter of 2012 compared with the same period last year, as the 228B moved toward full production. An increase YTD remains, as Company staff was utilized to replace contractor resources in the later portion of 2011 and throughout 2012. It is anticipated that with the scheduled certification of the AFIRS 228 in the upcoming quarters that staffing levels will increase.

Share based compensation increased throughout 2012 due to higher level of option grants to a larger base of staff, combined with an increase in the calculated fair value per share.

Contract labour decreased from 2011, mainly as the result of reduced utilization of consultants for hardware development. With the certification phase of the AFIRS 228 in upcoming quarters the requirement for consultants will increase in order to obtain the necessary skills and experience to certify the product.

Office expenses decreased in the fourth quarter of 2012, while increasing overall in 2012 from 2011, as a result of increased costs associated with patent applications relating to the AFIRS 228 and other initiatives as well as legal fees associated with the SNC legal action.

Travel expenses increased in the fourth quarter of 2012 to partially offset the decrease year over year, due to bringing the AFIRS 228 in-house and the resulting reduction in need to travel to contractor sites.

Equipment and maintenance decreases are due to a decreased requirement to purchase software and equipment directly related to AFIRS 228 development.

Components decreased both in the quarter and year over year 2011 to 2012, as a result of the movement of parts purchased for the development of the AFIRS 228B to inventory as the remaining parts are no longer required for development but are being used in the production of units for customers.

Government grants increases are due to differences in funding received in 2011 versus 2012. The $585,705 shown in 2012 and $631,652 of the amount recorded in 2011 are the portion of funds received that has been accounted for as a grant from SADI, while the additional $90,031 in 2011 was received from the Industrial Research Assistance Program ("IRAP") program. The expense in Q4 2012 was the result of an adjustment to the effective interest rate of the repayment portion of SADI grant funds received.

SRED credit expense in the fourth quarter of 2012 was the result of the Canada Revenue Agency SRED program's final review of the Company's 2010 SRED claim.

Depreciation expense increased in the quarter and throughout 2012 due to an allocation between cost centers. FLYHT's total depreciation decreased in 2012 versus 2011 by $39,922 and in the fourth quarter by $13,641 due to a decrease in the need to acquire capital equipment.

Net finance costs

Major Category	Q4 2012 $	Q4 2011 $	Variance $	YTD 2012 $	YTD 2011 $	Variance $
Interest income	11	21	(10)	1,958	22,412	(20,454)
Net foreign exchange gain	-	11,329	(11,329)	10,830	66,406	(55,576)
Bank service charges	5,291	5,340	(49)	20,721	21,328	(607)
Interest expense	1,641	2,274	(633)	12,300	8,662	3,638
Government grant accretion	28,320	5,512	22,808	70,508	5,512	64,996
Debenture interest and accretion	106,061	100,688	5,373	402,275	379,479	22,796
Debenture cost amortization	19,744	19,744	-	78,546	78,331	215
Net foreign exchange loss	31,643	-	31,643	-	-	-
Net finance costs	**(192,689)**	**(122,208)**	**(70,481)**	**(571,562)**	**(404,494)**	**(167,068)**

Interest income decreased in the quarter and YTD as a result of decreased average cash balances in 2012 as compared to 2011.

Net foreign exchange gains were recorded in the fourth quarter 2011 as compared to **Net foreign exchange losses** in the fourth quarter of 2012 due to the relative strength of the Canadian dollar in relation to the U.S. dollar. Net gains were less in 2012 than 2011.

Interest expense increased YTD due to a combination of interest owing on a short-term loan and an increase in equipment leased.

Government grant accretion is the recognition of the interest component of the SADI grant, which increased throughout 2012 as more funding was received.

Debenture interest increases are the result of increased interest accretion on the debentures issued in December 2010.

Net loss

Major Category	Q4 2012 $	Q4 2011 $	Variance $	YTD 2012 $	YTD 2011 $	Variance $
Net loss	621,446	2,083,371	(1,461,925)	4,883,752	6,543,049	(1,659,297)
Net loss without R&D	40,436	1,213,147	(1,172,711)	2,476,015	3,216,556	(740,541)

FOREIGN EXCHANGE

All international and a majority of domestic sales of the Company's products and services are denominated in U.S. dollars. Accordingly, the Company is susceptible to foreign exchange fluctuations. In 2012, 96% of the Company's gross sales were made in U.S. dollars, compared to 98% in 2011. The Company expects this to continue since the aviation industry conducts the majority of its transactions in U.S. dollars, thus limiting the opportunity for sales in Canadian dollars or other major currencies. The Company also contracts in U.S. dollars for certain services and products related to cost of sales, which creates a natural hedge.

TRANSACTIONS WITH RELATED PARTIES

a) Throughout 2012, the Company engaged in transactions with a company owned by a director to supply consulting services. The related party provides business development services such as trade show attendance and corporate introductions related to the business jet initiatives of the Company.

b) During the fourth quarter of 2012, the Company did not engage in transactions with a company owned by another director to supply consulting services that had been used throughout 2011 and into the first quarter of 2012. The related party provided business development services such as market analysis and corporate introductions related to the commercial aviation initiatives of the Company.

	Included in contract labour:				Included in accounts payable and accrued liabilities:	
	For the three months ended December 31		For the year ended December 31		December 31	
	2012 $	2011 $	2012 $	2011 $	2012 $	2011 $
(a)	22,394	22,822	89,875	88,784	14,915	15,387
(b)	-	16,219	17,984	41,596	-	6,192
Total	**22,394**	**39,041**	**107,859**	**130,380**	**14,915**	**21,579**

CONTRACTUAL OBLIGATIONS

The following table details the contractual maturities of financial liabilities, including estimated interest payments.

December 31, 2012	< 2 months $	2-12 months $	1-2 years $	2-5 years $	> 5 years $	Total $
Accounts payable	531,548	12,045	-	-	-	543,593
Accounts payable – SNC*	1,790,571	-	-	-	-	1,790,571
Compensation and statutory deductions	136,007	180,051	-	-	-	316,058
Finance lease liabilities	4,058	20,291	14,029	-	-	38,378
Accrued liabilities	20,046	190,916	-	-	-	210,962
Loans and borrowings	24,785	313,736	3,482,088	245,218	1,464,132	5,529,959
Total	**2,507,015**	**717,039**	**3,496,117**	**245,218**	**1,464,132**	**8,429,521**

** See contingencies section on page 33.*

In addition, the Company has repayment obligations related to three Government of Canada loan programs.

Under IRAP, the outstanding balance at December 31, 2012 was $66,690 compared to $134,550 at December 31, 2011. The initial amount is to be repaid as a percentage of gross revenues over a 5 to 10 year period commencing October 2005.

Under the Technology Partnerships Canada ("TPC") program, the Company has an outstanding balance of $28,074 at December 31, 2012, compared to $47,186 at December 31, 2011. The initial amount is to be repaid based on 15% of the initial contribution, which equates to $19,122 per year for a 10 year repayment period. The yearly repayment is due if the Company has achieved more than a 10% increase in gross revenue over the previous year and the gross revenue exceeds the gross revenue that was set in fiscal 2004 of $556,127. The repayment period commenced January 1, 2005.

Under SADI, the Company has, at December 31, 2012, an outstanding repayable balance of $1,770,756. The amount is repayable over 15 years on a stepped basis commencing April 30, 2014. The initial payment on April 30, 2014 will be 3.5% of the total contribution received and will increase yearly by 15% until April 30, 2028 when the final payment will be 24.5% of the total contribution received.

During the fourth quarters of both 2012 and 2011, FLYHT did not enter into any new lease agreements. Minimum lease payments are as follows for existing finance leases:

Year	Total $
2013	24,350
2014	14,028
Total	**38,378**

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Company prepares its consolidated financial statements in accordance with accounting principles generally accepted in Canada. The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses. These estimates are based on management's historical experiences and various other assumptions that are believed by management to be reasonable under the circumstances. Such assumptions are evaluated on an ongoing basis and form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results could differ from these estimates.

The following are the Company's critical accounting policies, significant estimates, and assumptions used in preparing our financial statements:

1. The Company maintains an allowance for doubtful accounts for estimated losses that may occur if customers are unable to pay trade balances owing to the Company. This allowance is determined based on a review of specific customers, historical experience, and economic circumstances.

2. Inventories are carried at the lower of cost and net realizable value.

3. The Company evaluates its deferred tax assets at each reporting date and recognizes deferred tax assets to the extent that it is probable that future taxable profits will be available against which they can be utilized. At December 31, 2012, no deferred tax assets were recognized.

4. The Company records amounts for warranty based on historical warranty data and are recognized upon shipment of the underlying products.

5. Intangible assets are stated at cost less accumulated amortization and comprise of a license, customer contracts, and customer relationships. The license has an indefinite life. The customer contracts and relationships are amortized using the straight line method over the remaining life of the assumed contract. Indefinite lived intangible assets are subject to an annual impairment test or more frequently if events or circumstances change that indicate that the carrying value may not be recoverable.

6. The Company recognizes revenue from lease type agreements as agreement consideration, which is recorded as unearned revenue and recognized into revenue over the term of the lease agreement. Sales type agreement consideration is deferred as unearned revenue and corresponding expenses are recorded as work in progress until the system is fully functional and customer acceptance has been obtained, at which time the full deferred amount is recognized in revenue along with the work in progress as cost of sales. For both types of agreements, the revenue from UpTime usage fees is recognized at the end of each month and is based on actual usage during that month.

   Revenue from the sale of Underfloor Stowage Units and other parts is recognized when the unit is shipped, title is transferred, and collection is reasonably assured. Certain customers have prepaid for products or services not yet delivered. These amounts are included in trade payables and accrued liabilities on the SFP, and are recorded as revenue in the period in which such products or services are delivered.

   Technical services are provided based upon orders and contracts with customers that include fixed or determinable prices that are based upon daily, hourly or contracted rates. Revenue is recognized as services are rendered and when collectability is reasonably assured.

FINANCIAL INSTRUMENTS

The Company is exposed to fluctuations in the exchange rates between the Canadian dollar and other currencies with respect to assets, sales, and purchases. The Company monitors fluctuations and may take action if deemed necessary to mitigate its risk.

The Company is exposed to changes in interest rates as a result of the operating loan, bearing interest based on the Company's lenders' prime rate. The convertible secured subordinate debenture has a fixed rate of interest and therefore does not expose the Company's cash flow to interest rate changes.

There is a credit risk associated with accounts receivable where the customer fails to pay invoices. The Company extends credit generally to credit-worthy or well-established customers. In the case of agreement consideration or product sales, the invoiced amount is generally payable before the product is shipped to the customer. The Company assesses the financial risk of a customer and based on that analysis may require that a deposit payment be made before a service is provided. As well, for monthly recurring revenue the Company has the ability to disable AFIRS UpTime in cases where the customer has not fulfilled its financial obligations.

CONTINGENCIES

a) The Company took action against SNC and is defending itself against an action by SNC related to the development of the AFIRS 228. The Company has accrued a liability of $1,790,571, which represents the total amount of invoices received from SNC. The Company maintains that the claims are without merit and that the services invoiced were not provided. Management intends to vigorously defend the matter and believes the outcome will be in its favour.

   In November 2011, the Company formally notified SNC that they were in material breach of the License and Manufacturing Agreement that was entered into between the two parties on December 28, 2008. The Company demanded payment of $1,329,976 USD and $2,650,000 CDN and terminated the agreement. As well, the Company applied to the Alberta courts for arbitration under the provisions of the agreement. The courts granted the request for arbitration on November 29, 2011. Subsequent to the grant, SNC refused to recognize the jurisdiction of the court and has contested the cancellation of the agreement and the arbitration.

   In November 2011, SNC filed an action in Utah alleging that FLYHT failed to pay $2,042,000 USD.

   As all invoices presented to the Company by SNC have been accrued, management does not expect the outcome to have a material effect on the Company's financial position.

b) In the second quarter of 2012, a full and final settlement was reached with a Toronto-based company for the outstanding claims and counterclaims that were commenced in September 2007 alleging the Company induced a breach of contract and interfered with economic relationships. The parties agreed to dismiss existing litigation on a without cost basis with no admissions of liability. Therefore there were no amounts to be recorded.

RECENT ACCOUNTING PRONOUNCEMENTS

All accounting standards effective for periods beginning on or after January 1, 2012 have been adopted by FLYHT. The following new accounting pronouncements have been issued but are not effective and may have an impact on the Company. All of the following new or revised standards permit early adoption with transitional arrangements depending upon the date of initial application:

IFRS 7 / IAS 32 – Offsetting Financial Assets and Liabilities clarifies that an entity currently has a legally enforceable right to set-off if it is not contingent on a future event, situations under which it is enforceable, and defines related disclosure requirements (January 1, 2013 / January 1, 2014).

IFRS 9 – Financial Instruments replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. (January 1, 2015).

IFRS 10 – Consolidated Financial Statements builds on existing principles and standards and identifies the concept of control as the determining factor in whether an entity should be included within consolidated financial statements of the parent company (January 1, 2013).

IFRS 11 – Joint Arrangements establishes the principles for financial reporting by entities when they have an interest in arrangements that are jointly controlled (January 1, 2013).

IFRS 12 – Disclosure of Interest in Other Entities provides disclosure requirements for interests held in other entities including joint arrangements, associates, special purpose entities and other off balance sheet entities (January 1, 2013).

IFRS 13 – Fair Value Measurement defines fair value, requires disclosure of fair value measurements and provides a framework for measuring fair value when it is required or permitted within the IFRS standards (January 1, 2013).

IAS 1 – Presentation of Financial Statements requires that an entity present separately the items of OCI that may be reclassified to profit and loss in the future from those that would never be reclassified (annual periods beginning on or after July 1, 2012).

IAS 19 – Employee Benefits clarifies the distinction between short-term and other long-term employee benefits and removes policy choice for recognition of actuarial gains and losses. (January 1, 2013).

IAS 28 - Investments in Associate and Joint Ventures revised the existing standard and prescribes the accounting for investments and sets out requirements for application of the equity method when accounting for investments in associates and joint ventures (January 1, 2013).

The Company has not completed its evaluation of the effect of adopting these standards on its consolidated financial statements.

INDEPENDENT AUDITORS' REPORT

To the Shareholders of FLYHT Aerospace Solutions Ltd.

We have audited the accompanying consolidated financial statements of FLYHT Aerospace Solutions Ltd., which comprise the consolidated statements of financial position as at December 31, 2012 and December 31, 2011, the consolidated statements of comprehensive income (loss), changes in equity (deficiency) and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of FLYHT Aerospace Solutions Ltd. as at December 31, 2012 and December 31, 2011, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 2 (e) in the consolidated financial statements, which indicates that FLYHT Aerospace Solutions Ltd. has a net loss and negative cash flows from operating activities for the year ended December 31, 2012 and, as at that date, its current liabilities exceeded its current assets. These conditions, along with other matters as set forth in Note 2 (e) in the consolidated financial statements, indicate the existence of a material uncertainty that may cast significant doubt about FLYHT Aerospace Solutions Ltd's ability to continue as a going concern.

Chartered Accountants
April 9, 2013
Calgary, Canada

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	December 31, 2012 $	December 31, 2011 $
Assets		
Current assets		
Cash and cash equivalents (note 6)	676,246	1,928,065
Restricted cash (note 13)	250,000	250,000
Trade and other receivables (note 7)	1,209,497	680,886
Deposits and prepaid expenses	99,464	199,076
Inventory (note 8)	1,663,918	975,298
Total current assets	3,899,125	4,033,325
Non-current assets		
Property and equipment (note 9)	240,725	336,660
Rental assets	38,726	127,867
Intangible assets (note 10)	62,623	201,217
Inventory (note 8)	727,773	810,640
Total non-current assets	1,069,847	1,476,384
Total assets	4,968,972	5,509,709
Liabilities		
Current liabilities		
Trade payables and accrued liabilities (note 11)	3,658,254	4,903,537
Unearned revenue (note 12)	2,717,245	1,639,684
Loans and borrowings (note 13)	271,832	384,815
Finance lease obligations	19,963	48,715
Current tax liabilities (note 25)	4,078	4,437
Total current liabilities	6,671,372	6,981,188
Non-current liabilities		
Unearned revenue (note 12)	-	257,520
Loans and borrowings (note 13)	3,104,967	2,486,199
Finance lease obligations	13,175	33,138
Provisions (note 15)	46,452	47,027
Total non-current liabilities	3,164,594	2,823,884
Total liabilities	9,835,966	9,805,072
Equity (deficiency)		
Share capital (note 16)	39,877,966	36,741,492
Convertible debenture – equity feature (note 13)	231,318	231,318
Warrants (note 16)	3,340,222	2,499,778
Contributed surplus	6,957,809	6,622,606
Accumulated other comprehensive income (loss)	-	-
Deficit	(55,274,309)	(50,390,557)
Total equity (deficiency)	(4,866,994)	(4,295,363)
Total liabilities and equity (deficiency)	4,968,972	5,509,709

See accompanying notes to consolidated financial statements. Going concern (note 2e), Contingencies (note 27)

On behalf of the board Director – Douglas Marlin Director – Paul Takalo

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

	For the year ended December 31, 2012 $	For the year ended December 31, 2011 $
Revenue (note 18)	6,469,806	5,467,199
Cost of sales	2,769,996	2,514,122
Gross profit	3,699,810	2,953,077
Other (income) (note 19)	(257,520)	(257,520)
Distribution expenses (note 21)	3,361,205	3,494,929
Administration expenses (note 22)	2,496,769	2,517,511
Research and development expenses (note 23)	2,407,737	3,326,493
Results from operating activities	(4,308,381)	(6,128,336)
Finance (income) (note 24)	(12,788)	(88,818)
Finance costs (note 24)	584,350	493,312
Net finance costs	(571,562)	(404,494)
Loss for the period before income tax	(4,879,943)	(6,532,830)
Income tax expense (note 25)	3,809	10,219
Total comprehensive loss for the year	(4,883,752)	(6,543,049)
Earnings (loss) per share		
Basic and diluted loss per share (note 17)	(0.04)	(0.06)

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (DEFICIENCY)

For the years ended December 31, 2012 and 2011

	Share Capital $	Convertible Debenture $	Warrants $	Contributed Surplus $	Foreign Currency Translation Reserve* $	Deficit $	Total Equity (Deficit) $
Balance at January 1, 2011	36,730,844	231,318	5,134,018	3,750,114	-	(43,847,508)	1,998,786
Loss for the year	-	-	-	-	-	(6,543,049)	(6,543,049)
Foreign currency translation differences	-	-	-	-	-	-	-
Total comprehensive loss for the year	-	-	-	-	-	(6,543,049)	(6,543,049)
Contributions by and distributions to owners							
Share issue cost recovery	3,913	-	-	-	-	-	3,913
Share-based payment transactions	-	-	-	240,937	-	-	240,937
Share options exercised	6,735	-	-	(2,685)	-	-	4,050
Warrants expired	-	-	(2,634,240)	2,634,240	-	-	-
Total contributions by and distributions to owners	10,648	-	(2,634,240)	2,872,492	-	-	248,900
Balance at December 31, 2011	36,741,492	231,318	2,499,778	6,622,606	-	(50,390,557)	(4,295,363)
Balance at January 1, 2012	36,741,492	231,318	2,499,778	6,622,606	-	(50,390,557)	(4,295,363)
Loss for the year	-	-	-	-	-	(4,883,752)	(4,883,752)
Foreign currency translation differences	-	-	-	-	-	-	-
Total comprehensive loss for the year	-	-	-	-	-	(4,883,752)	(4,883,752)
Contributions by and distributions to owners							
Issue of common shares	4,349,940	-	-	-	-	-	4,349,940
Share issue cost	(492,227)	-	-	-	-	-	(492,227)
Bifurcation of warrants issued	(723,417)	-	-	-	-	-	(723,417)
Issues of warrants	-	-	840,444	-	-	-	840,444
Share-based payment transactions	-	-	-	335,881	-	-	335,881
Share options exercised	2,178	-	-	(678)	-	-	1,500
Warrants expired	-	-	-	-	-	-	-
Total contributions by and distributions to owners	3,136,474	-	840,444	335,203	-	-	4,312,121
Balance at December 31, 2012	39,877,966	231,318	3,340,222	6,957,809	-	(55,274,309)	(4,866,994)

*Accumulated other comprehensive income (loss) - See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

	For the year ended December 31	
Cash flows from operating activities	**2012** **$**	**2011** **$**
Loss for the year	(4,883,752)	(6,543,049)
Adjustments for:		
Depreciation	104,215	144,137
Depreciation of rental assets	24,131	43,811
Amortization of intangible assets	138,594	138,593
Convertible debenture accretion	402,275	379,479
Payment of debenture interest	(252,720)	(258,259)
Amortization of debenture issue costs	78,546	78,331
Government grant accretion	70,508	5,512
Government grant (note 3g, 23)	(585,705)	(631,652)
Loss on disposal of property and equipment and rental assets	61,116	9,930
Equity-settled share-based payment transactions	335,881	240,937
Change in inventories	(605,753)	449,246
Change in trade and other receivable	(541,660)	166,959
Change in deposits and prepaid expenses	99,612	(58,772)
Change in trade payables and accrued liabilities	(1,202,968)	1,323,136
Change in provisions	(934)	(14,212)
Change in unearned revenue	820,041	(934,674)
Unrealized foreign exchange	(191)	(70,446)
Interest expense	12,300	8,662
Interest paid	(12,300)	(8,662)
Income tax expense	3,809	10,219
Income tax paid	(4,168)	(5,782)
Net cash used in operating activities	(5,939,123)	(5,526,556)
Cash flows from investing activities		
Acquisitions of property and equipment	(8,280)	(88,192)
Disposal (acquisitions) of rental assets	3,894	(16,577)
Interest income	(1,958)	(22,412)
Interest received	1,958	22,412
Net cash used in investing activities	(4,386)	(104,769)
Cash flows from financing activities		
Share issue (cost) recovery	(375,200)	3,913
Proceeds from issue of shares and warrants	4,349,940	-
Proceeds from exercise of share options and warrants	1,500	4,050
Proceeds from government grant	879,854	890,902
Repayment of loans and borrowings	(86,973)	(61,827)
Payment of finance lease liabilities	(48,715)	(36,294)
Net cash from financing activities	4,720,406	800,744
Net decrease in cash and cash equivalents	(1,223,103)	(4,830,581)
Cash and cash equivalents at January 1	1,928,065	6,617,852
Effect of exchange rate fluctuations on cash held	(28,716)	140,794
Cash and cash equivalents	676,246	1,928,065

See accompanying notes to consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. REPORTING ENTITY

FLYHT Aerospace Solutions Ltd. (the "Company" or "FLYHT") was founded in 1998 under the name AeroMechanical Services Ltd. FLYHT is a public company incorporated under the Canada Business Corporations Act, and is domiciled in Canada. The Company has been listed on the TSX Venture Exchange since March 2003, first as TSX.V: AMA. On May 10, 2012, the Company announced that shareholders approved a name change from AeroMechanical Services Ltd. to FLYHT Aerospace Solutions Ltd. On May 17, 2012, FLYHT received approval from the Toronto Stock Exchange to trade under the new symbol FLY. The Company's head office is 200W, 1144 – 29th Avenue NE, Calgary, Alberta T2E 7P1.

The consolidated financial statements of the Company as at and for the years ended December 31, 2012 and 2011 consist of the Company and its subsidiaries.

FLYHT is a designer, developer, and service provider to the global aerospace industry. The Company supports aviation customers in different sectors including commercial, business, leasing and military operators. Clients are using FLYHT's products on every continent and the Company proudly serves more than 35 aircraft operators globally. FLYHT's headquarters are located in Calgary, Canada with representation in China, the Middle East, South America, the United States and Europe.

2. BASIS OF PREPARATION

(a) Statement of compliance

These consolidated annual financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These consolidated financial statements were approved by the Board of Directors on April 9, 2013.

(b) Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis except for financial instruments at fair value through profit or loss, which are measured at fair value in the statement of financial position ("SFP").

(c) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency.

(d) Use of estimates and judgments

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Critical judgments in applying accounting policies and key estimates having the most significant effect on the amounts recognized in the consolidated financial statements include:

- Inventories: judgement is required in determining amounts to be classified as non-current, and in determining potential impairment. Regular analysis is performed on inventory items, including a review of the age of outstanding inventory, historical movement patterns, contracted sales requirements, physical obsolescence, and technological advances (notes 3c, 3j, 8)
- Trade and other receivables: estimates regarding collectability, and potential impairment are made taking into account the age of outstanding receivables, customer payment history, and specific indicators (notes 3j, 7)
- Revenue recognition: recognition of AFIRS UpTime revenue relies on a determination of the point when a system is fully functional, and when customer acceptance has been received. Services revenue is recognized in proportion to the stage of completion of the transaction at the reporting date, which requires an estimate of the services performed to date as a portion of the total services to be performed. (notes 3k, 12, 18)

2. BASIS OF PREPARATION (CONTINUED)

(e) Going concern

These consolidated financial statements have been prepared on the basis that the Company will continue to realize its assets and meet its obligations in the ordinary course of business. As at December 31, 2012, the Company had negative working capital of $2,772,247, a deficit of $55,274,309, a net loss of $4,883,752 and negative cash flow from operations of $5,939,123.

The Company has incurred significant operating losses and negative cash flows from operations over the past years. The Company's ability to continue as a going concern is dependent upon attaining profitable operations and/or obtaining additional financing 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 containment strategy, the completion of research and development ("R&D") projects, and general economic conditions. It is the Company's intention to continue to fund operations by adding revenue and its resulting cash flow as well as continue to manage outgoing cash flows. If the need arises due to market opportunities the Company may meet those needs via the capital markets. These material uncertainties may cast significant doubt upon the Company's ability to continue as a going concern.

There is no assurance that the Company will be successful in attaining and sustaining profitable operations and cash flow 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 will be adversely affected. These consolidated 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 statement of financial position items.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated annual financial statements.

These accounting policies have been applied consistently by FLYHT's subsidiaries.

(a) Basis of consolidation

(i) Business combinations

For acquisitions on or after January 1, 2010, the Company measures goodwill as the fair value of the consideration transferred including the recognized amount of any non-controlling interest in the acquiree, less the net recognized amount (fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss.

The Company will elect on a transaction-by-transaction basis whether to measure non-controlling interest at its fair value, or at its proportionate share of the recognized amount of the identifiable net assets, at the acquisition date.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Company incurs in connection with a business combination will be expensed as incurred.

(ii) Subsidiaries

Subsidiaries are entities controlled by FLYHT. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Company.

These consolidated financial statements consolidate the accounts of FLYHT and its wholly owned subsidiaries, FLYHT Inc., AeroMechanical Services USA Inc., FLYHT Corp., FLYHT India Corp. and TFM Inc. The latter four subsidiaries are inactive.

(iii) Transactions eliminated on consolidation

Intra-group balances, transactions, and any unrealized income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Financial instruments

(i) Non-derivative financial assets

The Company initially recognizes loans, receivables and deposits on the date they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Loans and receivables comprise trade and other receivables.

(ii) Non-derivative financial liabilities

The Company initially recognizes debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

The Company has the following non-derivative financial liabilities: debentures, trade payables and accrued liabilities, loans and borrowings, and finance lease obligations.

These financial liabilities are recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest rate method.

(iii) Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

Warrants are classified as equity. Incremental costs directly attributable to the issue of warrants are recognized as a deduction from equity, net of any tax effects.

The fair value of warrants is estimated using the Black-Scholes option pricing model.

(iv) Compound financial instruments

Compound financial instruments issued by the Company comprise convertible secured subordinate debentures that can be converted to common shares at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value.

The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Financial instruments (Continued)

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not remeasured subsequent to initial recognition.

Interest relating to the financial liability is recognized in profit or loss. On conversion, the financial liability is reclassified to equity and no gain or loss is recognized.

(c) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories includes expenditures incurred in acquiring the inventories, production or conversion costs, and other costs incurred in bringing them to their existing location and condition. The amount of inventory that is expected to be recovered more than 12 months after the reporting date is presented as a non-current asset.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Any writedown to net realizable value is recognized as an expense. Reversals of previous writedowns are recognized in profit or loss in the period when the reversal occurs.

AFIRS raw material inventories include general parts, which are held pending installation and sales to customers. The weighted average cost method is used.

The carrying cost of AFIRS finished goods includes AFIRS raw material component costs plus a standard labour allocation. AFIRS finished goods consists of AFIRS units that have been assembled and are held pending sale to customers. The weighted average cost method is used for components, while the labour component allocated to each unit is valued using a standard cost.

Installations-in-progress includes product costs, and other direct project costs. When the system is fully functional, the installations-in-progress balance is recognized as cost of sales to correspond with the full unearned revenue amount then recognized as revenue.

The production of Underfloor Stowage Units is outsourced and the weighted average cost method is used.

(d) Property and equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset including those that are directly attributable to bringing the asset to the location and working condition for its intended use.

Software that is integral to the functionality of the related equipment is recognized as property and equipment, otherwise it is considered an intangible asset.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment. Net gains (losses) are recognized in profit or loss.

(ii) Subsequent costs

The cost of replacing a part of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

(iii) Depreciation

Depreciation is calculated using the depreciable amount, which is the cost of an asset less its residual value. Depreciation is recognized in profit or loss at rates calculated to write-off assets over their estimated useful lives since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the assets.

Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Property and equipment (Continued)

The depreciation rates are as follows:

Computers	30% declining balance
Software	12 months straight line
Equipment	20% declining balance
Leasehold improvements	Term of lease (5 years)

Estimates of depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate. Any changes in these estimates are accounted for prospectively.

(iv) Research and development ("R&D")

Expenditure on research activities is expensed as incurred.

R&D costs consist primarily of consulting expenses and parts related to the design, testing, and manufacture of Automated Flight Information Reporting System ("AFIRS™") and the design and testing of UpTime, FIRST, FLYHTStream, and FLYHT Fuel Management System. Other R&D costs include testing and certification.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalized includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use, and borrowing costs on qualifying assets for which the commencement date for capitalization is on or after January 1, 2010. Other development expenditure is recognized in profit or loss as incurred.

Capitalized development expenditure is measured at cost less accumulated amortization and accumulated impairment losses.

(v) Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditures are recognized in profit or loss as incurred.

(vi) Amortization

Amortization is calculated based on the asset's cost less its residual value.

Estimates of amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate. Any changes in these estimates are accounted for prospectively.

(e) Leased assets

Leases where the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for according to the accounting policy applicable to that asset. Other leases are operating leases and the Company does not recognize the leased assets in its statement of financial position. Initial direct costs for operating leases are expensed immediately.

As a lessee, FLYHT has several finance leases for computer hardware.

As a lessee, FLYHT has only one operating lease, for its premises.

As a lessor, rental assets are recorded at cost in FLYHT's statement of financial position and consist of AFIRS units that are leased and in use in customer aircraft under lease type agreements. Depreciation is provided for active leased units on a straight-line basis over nine years. Spare units at customer sites are not depreciated until swapped into service.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Intangible assets

Intangible assets that are acquired by the Company and have finite useful lives are measured at cost less accumulated amortization and accumulated impairment losses.

Customer contracts and relationships are amortized over the remaining life of the contracts that were assumed on acquisition of Wingspeed Corporation's assets (residual value is zero). This method most closely reflects the expected pattern of consumption of the future economic benefits embodied in the assets. The useful initial lives range from two to four years as per the terms of the contracts.

Acquired intangible assets with indefinite useful lives are stated at cost and are not amortized.

The license with Bombardier that allows FLYHT access to technical documents has an indefinite life and is not amortized. The Company presently has dealings with Bombardier and sees no end to that relationship.

An intangible asset is derecognized on disposal or when no future economic benefits are expected from its use or disposal.

(g) Government assistance

(i) Government grants

Low-interest or interest-free government loans are measured initially at their fair value and interest is imputed on the loan in subsequent periods. The benefit of the below-market interest rate is measured as the difference between the fair value of the loan on initial recognition and the amount received. This benefit is accounted for according to the type of grant.

(h) Lease payments

(i) Operating lease payments

Payments made under operating leases are recognized in profit or loss on an accrual basis over the term of the lease. Initial direct costs for operating leases are immediately expensed.

(ii) Finance lease payments

Minimum lease payments made under finance leases are apportioned between finance costs and a reduction of the outstanding liability. The finance cost is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(i) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

(i) Warranties

The Company warrants that the AFIRS products shall be free of defects during the term of each agreement and any renewals. Also, FLYHT warrants that it will deliver all data services required by the customer accurately and on-time. A provision for warranties is recognized when the underlying products or services are sold. The provision is based on historical warranty data.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Impairment

(i) Financial assets (including receivables)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, or indications that a debtor will enter bankruptcy.

The Company assesses impairment of each customer's receivable balance by analyzing historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss regarding a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(ii) Non-financial assets

The carrying amounts of the Company's non-financial assets, other than inventories, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For intangible assets that have indefinite useful lives, the recoverable amount is estimated at year end. The Company's non-financial assets that are subject to impairment include: property and equipment, rental assets, and intangible assets.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit", or "CGU"). The Company's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognized in profit or loss if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are allocated to reduce the carrying amounts of the assets in the CGU on a pro rata basis.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, had no impairment loss been recognized.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Revenue

(i) AFIRS UpTime sales

(a) Sales type agreements

AFIRS fees from sales type service agreements are deferred as unearned revenue and corresponding expenses are recorded as an asset (installations in progress). Once the system (including the AFIRS unit and installation kit) is fully functional and accepted by the customer, the full deferred amount is recognized in revenue along with the installations in progress as cost of sales.

(b) Lease type agreements

The Company rents AFIRS units to some customers under operating leases. Under the terms of the lease agreements, the AFIRS units remain the property of FLYHT and title does not transfer to the customer nor is there an option for the customer to purchase the AFIRS unit at the end of the lease.

The upfront fee from leased AFIRS contracts is initially recorded as unearned revenue and recognized as revenue on a straight line basis over the first term of the lease agreement upon shipment of the AFIRS unit.

(ii) AFIRS UpTime usage

Revenue from UpTime usage fees is recognized at the end of each month and is based on actual usage during that month.

(iii) Parts sales

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable. Revenue is recognized when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

Revenue from the sale of Underfloor Stowage Units is recognized when the unit is shipped, title is transferred, and collection is reasonably assured.

(iv) Services

Technical services are provided based on orders and contracts with customers that include fixed or determinable prices that are based on daily, hourly, or contracted rates. Revenue is recognized in proportion to the stage of completion of the transaction at the reporting date.

(v) Other income

License fees and royalties paid for the use of FLYHT's assets (i.e., trademarks, patents, and software) are recognized on an accrual basis.

(l) Employee benefits

(i) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

The Company follows accrual accounting for wages, salaries, commissions and variable compensation payments. The commission policy outlines how commissions are calculated and when payment is made to employees.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Employee benefits (Continued)

(ii) Share-based payment transactions

The grant date fair value of share-based payment awards granted to employees is recognized as an expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards.

Share-based payment transactions are equity-settled. Share options granted to directors and employees are measured using the fair value of the equity instruments granted at the grant date, which is determined using the Black-Scholes option pricing model.

If options are promised to an employee before the grant date, the Company recognizes the expense at the service commencement date based on fair value. Once the grant date is established, the earlier estimate is revised so that the expense is recognized based on the actual grant date fair value.

FLYHT estimates the expected forfeiture rate at the option grant date and updates the estimate over time as new information becomes available. Forfeitures may occur if employees terminate their employment before the options vest.

(m) Share-based payment transactions to non-employees

(i) Stock options granted to consultants

The Company grants stock options to consultants. These share-based payment transactions are equity-settled. Transactions with non-employees are measured based on the fair value of the goods or services received, at the receipt date. Fair value is measured at the date the Company obtains the goods or the counterparty renders service.

FLYHT estimates the expected forfeiture rate at the option grant date and updates the estimate over time as new information becomes available. Forfeitures may occur if consultants do not fulfill their obligations before the options vest.

(ii) Agent warrants

When the Company issues common shares, warrants, and debentures through brokered private placements, agent warrants are issued to the agents as consideration for their services.

Warrants are classified as equity. Incremental costs directly attributable to the issue of warrants are recognized as a deduction from equity, net of any tax effects.

The fair value of warrants is estimated using the Black-Scholes option pricing model.

(n) Finance income and finance costs

Finance income comprises interest income which is recognized as it accrues in profit or loss, using the effective interest method. The Company earns income on its cash and cash equivalents (bank deposits) and its restricted cash (Guaranteed Investment Certificates). Interest is recognized as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings, and unwinding of the discount on provisions and are recognized in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis, as either finance income or finance costs.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Foreign currency

(i) Foreign currency transactions

Foreign currency transactions are translated to Canadian dollars at the exchange rate in effect on the transaction date. Foreign currency denominated monetary assets and liabilities at each reporting date are retranslated to the functional currency at the exchange rate in effect on that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate in effect on the date of the transaction.

Foreign currency differences arising on retranslation are recognized in profit or loss.

(ii) Foreign operations

The assets and liabilities of foreign operations are translated to Canadian dollars at exchange rates in effect at the reporting date. The income and expenses of foreign operations are translated to Canadian dollars at exchange rates in effect on the transaction dates.

Foreign currency differences are recognized in other comprehensive income in the cumulative translation account.

Foreign exchange gains or losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future and which, in substance, is considered to form part of the net investment in the foreign operation, are recognized in other comprehensive income in the cumulative amount of foreign currency translation differences.

(p) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

When a taxable temporary difference arises from the initial recognition of the equity component separately from the liability component of a compound financial instrument, the resulting deferred tax liability is charged directly to the carrying amount of the equity component.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Earnings per share

The Company presents basic and diluted earnings per share ("EPS") data for its common shares. Basic EPS is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted EPS is determined each period by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding, for the effects of all dilutive potential common shares, which comprise debentures, share options, and warrants.

4. NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

All accounting standards effective for periods beginning on or after January 1, 2012 have been adopted by FLYHT. The following new accounting pronouncements have been issued but are not effective and may have an impact on the Company. All of the following new or revised standards and amendments to existing standards permit early adoption with transitional arrangements depending upon the date of initial application:

IFRS 7 / IAS 32 – Offsetting Financial Assets and Liabilities clarifies that an entity currently has a legally enforceable right to set-off if it is not contingent on a future event, situations under which it is enforceable, and defines related disclosure requirements (January 1, 2013 / January 1, 2014).

IFRS 9 – Financial Instruments replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. (January 1, 2015).

IFRS 10 – Consolidated Financial Statements builds on existing principles and standards and identifies the concept of control as the determining factor in whether an entity should be included within consolidated financial statements of the parent company (January 1, 2013).

IFRS 11 – Joint Arrangements establishes the principles for financial reporting by entities when they have an interest in arrangements that are jointly controlled (January 1, 2013).

IFRS 12 – Disclosure of Interest in Other Entities provides disclosure requirements for interests held in other entities including joint arrangements, associates, special purpose entities and other off balance sheet entities (January 1, 2013).

IFRS 13 – Fair Value Measurement defines fair value, requires disclosure of fair value measurements and provides a framework for measuring fair value when it is required or permitted within the IFRS standards (January 1, 2013).

IAS 1 – Presentation of Financial Statements requires that an entity present separately the items of OCI that may be reclassified to profit and loss in the future from those that would never be reclassified (annual periods beginning on or after July 1, 2012).

IAS 19 – Employee Benefits clarifies the distinction between short-term and other long-term employee benefits and removes policy choice for recognition of actuarial gains and losses. (January 1, 2013).

IAS 28 - Investments in Associate and Joint Ventures revised the existing standard and prescribes the accounting for investments and sets out requirements for application of the equity method when accounting for investments in associates and joint ventures (January 1, 2013).

The Company has not completed its evaluation of the effect of adopting these standards on its consolidated financial statements.

5. DETERMINATION OF FAIR VALUES

(a) Share based payment transactions: measured using the Black-Scholes option pricing model; and

(b) Loans and borrowings: fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. In respect of the liability component of convertible debenture, the market rate of interest is determined by reference to similar liabilities that do not have a conversion feature.

6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash balances and bank deposits with an original maturity of three months or less.

7. TRADE AND OTHER RECEIVABLES

	December 31, 2012	December 31, 2011
	$	$
Trade receivables	882,990	586,855
Non-trade receivables and accrued receivables	326,507	94,031
Total	1,209,497	680,886

Non-trade receivables consist of earned interest income receivable, input tax credits, and government grants receivable. The Company's exposure to credit and currency risks is disclosed in note 26.

8. INVENTORY

	December 31, 2012	December 31, 2011
	$	$
AFIRS raw materials	1,157,382	998,529
AFIRS finished goods	249,703	187,747
Installations in progress	984,606	599,662
Balance	2,391,691	1,785,938
Less current portion	(1,663,918)	(975,298)
Non-current portion	727,773	810,640

In 2012, AFIRS materials and changes in AFIRS units and installations in progress recognized as cost of sales amounted to $1,389,017 (2011: $1,199,011). Included in this amount was a recovery of previously written down inventories amounting to $13,899 in 2012 (2011: writedown of $409,887) resulting from a complete review of slow moving inventory parts. All inventories are pledged as security for the bank loan and debentures.

9. PROPERTY AND EQUIPMENT

2012	Computers and Software $	Equipment $	Leasehold improvements $	Total $
Cost				
Balance at January 1	886,080	230,297	132,851	1,249,228
Additions	8,280	-	-	8,280
Disposals	-	-	-	-
Balance at December 31	894,360	230,297	132,851	1,257,508
Accumulated Depreciation				
Balance at January 1	703,554	139,241	69,773	912,568
Depreciation for the year	56,557	18,211	29,447	104,215
Disposals	-	-	-	-
Balance at December 31	760,111	157,452	99,220	1,016,783
Carrying Amounts				
At January 1	182,526	91,056	63,078	336,660
At December 31	134,249	72,845	33,631	240,725

2011	Computers and Software $	Equipment $	Leasehold improvements $	Total $
Cost				
Balance at January 1	851,210	235,349	126,592	1,213,151
Additions	81,933	-	6,259	88,192
Disposals	(47,063)	(5,052)	-	(52,115)
Balance at December 31	886,080	230,297	132,851	1,249,228
Accumulated Depreciation				
Balance at January 1	648,092	120,495	42,029	810,616
Depreciation for the year	93,422	22,971	27,744	144,137
Disposals	(37,960)	(4,225)	-	(42,185)
Balance at December 31	703,554	139,241	69,773	912,568
Carrying Amounts				
At January 1	203,118	114,854	84,563	402,535
At December 31	182,526	91,056	63,078	336,660

The Company leases equipment under several finance lease agreements. Certain leases provide FLYHT with the option to purchase the equipment at the end of the lease term. At December 31, 2012, the net carrying amount of leased property and equipment was $59,456 (2011: $84,937).

As of December 31, 2012, all property and equipment are pledged as security for the bank loan and debentures (note 13).

There were no contractual commitments for the acquisition of property or equipment as of December 31, 2012.

10. INTANGIBLE ASSETS

2012	License	Customer contracts	Total
	$	$	$
Cost			
Balance at January 1	34,992	466,510	501,502
Balance at December 31	34,992	466,510	501,502
Amortization			
Balance at January 1	-	300,285	300,285
Amortization for the year	-	138,594	138,594
Balance at December 31	-	438,879	438,879
Carrying amounts			
At January 1	34,992	166,225	201,217
At December 31	34,992	27,631	62,623

2011	License	Customer contracts	Total
	$	$	$
Cost			
Balance at January 1	34,992	466,510	501,502
Balance at December 31	34,992	466,510	501,502
Amortization			
Balance at January 1	-	161,692	161,692
Amortization for the year	-	138,593	138,593
Balance at December 31	-	300,285	300,285
Carrying amounts			
At January 1	34,992	304,818	339,810
At December 31	34,992	166,225	201,217

The license with Bombardier allows FLYHT access to technical documents. It has an indefinite life and is not amortized. The Company presently has dealings with Bombardier and sees no end to that relationship.

FLYHT provides the contracted customers with UpTime data services. The fair value of the contracts acquired is being amortized over the remainder of the contract period.

Amortization of intangibles is included in the statement of comprehensive income as cost of sales. All intangible assets are pledged as security for the bank loan and debentures.

11. TRADE PAYABLES AND ACCRUED LIABILITIES

	December 31, 2012	December 31, 2011
	$	$
Trade payables	2,334,164	3,372,232
Non-refundable customer deposits	797,070	980,955
Compensation and statutory deductions	316,058	422,776
Accrued liabilities	210,962	127,574
Total	3,658,254	4,903,537

Compensation and statutory deductions include accrued vacation pay, variable compensation, and statutory payroll deductions.

12. UNEARNED REVENUE

Unearned revenue classified as current consists of sales type agreements revenue that will be recognized when the AFIRS system is fully functional, and rental type agreements revenue and license fees expected to be recognized as income in the next year.

Unearned revenue classified as non-current consists of the non-current portion of rental type agreements and license fees.

The license and manufacturing agreement with 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. This license fee is deferred as unearned revenue and revenue is recognized on a straight-line basis over the five year term of the agreement. See note 19.

All amounts recorded in unearned revenue are non-refundable.

	2012	2011
	$	$
Balance January 1	1,897,204	2,831,878
AFIRS UpTime sales: shipped, not accepted	3,445,930	1,139,288
AFIRS UpTime usage: prepaid	376,981	113,752
AFIRS UpTime sales: revenue recognized	(2,464,784)	(1,810,540)
AFIRS UpTime usage: revenue recognized	(280,566)	(119,654)
License fees: revenue recognized	(257,520)	(257,520)
Balance December 31	2,717,245	1,897,204
Less current portion	(2,717,245)	(1,639,684)
Non-current portion	-	257,520

13. LOANS AND BORROWINGS

Bank loan

The Company currently has no bank debt and has available to it an operating demand loan up to a maximum of $250,000 (2011: $250,000). The operating loan bears interest at Canadian chartered bank prime plus 1.5%. The operating demand loan is secured by an assignment of cash collateral in the amount of $250,000 and a general security agreement including a first ranking security interest in all personal property. The amount of the cash collateral has been disclosed as restricted cash. As at December 31, 2012 and 2011, the facility had not been drawn. All amounts recorded in unearned revenue are non-refundable.

13. LOANS AND BORROWINGS (CONTINUED)

Government loans

The IRAP loan is non-interest bearing and is repaid annually, based on 1.11% of gross revenues, commencing October 2005 and is unsecured. The current portion is calculated based on the actual gross revenues in the fourth quarter plus the Company's revenue projections for the next nine months.

The TPC loan is non-interest bearing and unsecured. 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.

On February 23, 2011, the Company signed a contribution agreement with Industry Canada under the SADI program for the development of the next generation product, AFIRS 228. Under the terms of the agreement, SADI will make a repayable unsecured contribution to the Company of the lesser of 30% of the eligible project costs to December 30, 2012 or $1,967,507. The amount is repayable over 15 years commencing April 30, 2014. The payments are on a stepped basis starting April 30, 2014. Payments comprise 3.5% of the contribution and increase 15% yearly until April 30, 2028, when the final payment is 24.5% of the contribution. The amount to be repaid is 165% of the original contribution. At December 31, 2012, the Company had received a cumulative total of $1,770,756 (December 31, 2011: $890,902) (note 23).

Convertible debentures

The debentures mature on December 23, 2014 and bear interest at a rate of 8% per annum, accrued and paid annually in arrears commencing December 31, 2011. The debentures are convertible into common shares at a conversion rate of $0.40 per share at any time prior to maturity. The debentures are secured against all personal property of the Company, with the exception of the Company's intellectual property, and are subordinated in right of payment to all existing and future bank and/or governmental indebtedness of the Company. The fair value of the conversion feature was determined at the time of issue as the difference between the principal value of the debentures and the discounted cash flows assuming a 15% rate. The conversion feature is classified as equity and amounts to $231,318 as at December 31, 2012 (2011: $231,318). If the debentures are converted to shares, a portion of the value of the conversion feature recognized in shareholders' equity will be classified to share capital along with the conversion price paid.

	2012 $	2011 $
IRAP	66,690	134,550
TPC	28,074	47,186
SADI	629,419	264,762
Debenture payable	2,652,616	2,424,516
Balance December 31	3,376,799	2,871,014
Less current portion	(271,832)	(384,815)
Non-current portion	3,104,967	2,486,199

14. OPERATING LEASES

The Company has entered into a lease for its operating premises. Operating lease rentals are payable as follows:

	Premises $
2013	487,651
2014	81,637
Total	569,288

Operating lease payments made in 2012 totaled $472,142 (2011: $449,370).

15. PROVISIONS

Product warranty - non-current provision	2012 $	2011 $
Balance January 1	47,027	61,239
Provision made during the period	39,801	12,624
Provision used during the period	(40,376)	(26,836)
Balance December 31	46,452	47,027

A provision for warranties is recognized when the underlying products or services are sold. The provision is based on historical warranty data.

16. CAPITAL AND OTHER COMPONENTS OF EQUITY

Share capital

Authorized:

Unlimited numbers of common shares, and classes A, B and C preferred shares, issuable in series and have no par value.

The preferred shares may be issued in one or more series. 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 in each series.

Issued and outstanding:

Common shares:	Number of shares $	Value $
Balance January 1, 2011	118,615,466	36,730,844
Share issue cost recovery	-	3,913
Exercise of employee options	15,000	4,050
Contributed surplus from exercise of employee options	-	2,685
Balance December 31, 2011	118,630,466	36,741,492
Issued for cash	21,749,700	4,349,940
Share issue costs	-	(375,200)
Share issue costs – agent warrants	-	(117,027)
Bifurcation of warrants	-	(723,417)
Exercise of employee options	6,000	1,500
Contributed surplus from exercise of employee options	-	678
Balance December 31, 2012	140,386,166	39,877,966

In four tranches in June and July 2012 the Company issued 20,749,700 share units pursuant to a combination of brokered and non-brokered private placements at $0.20 per share unit resulting in gross proceeds of $4,149,940. Each share unit consists of one common share and one-half share purchase warrant. Each full share unit warrant entitles the holder to acquire one common share at a price of $0.30 until 24 months after the issue date of the share purchase warrant. As at December 31, 2012 share purchase warrants outstanding totaled 10,374,850 from the four tranches: 4,595,750 will expire June 22, 2014; 1,437,500, June 27, 2014; 1,889,100, June 29, 2014 and 2,452,000 July 4, 2014. The net cash proceeds after issuance costs of the brokered and non-brokered private placements totaled $3,784,367. A further 1,223,509 agent warrants were issued which entitle the holder to acquire one common share at a price of $0.20 until 24 months after the issue date of the agent warrant. The expiry details are: 606,935, June 22, 2014; 8,750, June 27, 2014; 264,474, June 29, 2014; and 343,350 July 4, 2014.

16. CAPITAL AND OTHER COMPONENTS OF EQUITY (CONTINUED)

On September 27, 2012 the Company issued 1,000,000 common shares at $0.20 per share in connection with a non brokered private placement resulting in gross proceeds of $200,000 The net cash proceeds after issuance costs was $198,115.

An additional 6,000 common shares were issued to directors, officers, employees and consultants on the exercise of options. The weighted average exercise price of these common shares was $0.25, resulting in cash proceeds of $1,500.

Stock option plan

The Company grants stock options to its directors, officers, employees and consultants. The Company has a policy of reserving up to 10% of the outstanding common shares for issuance to eligible participants. As at December 31, 2012, there were 14,038,617 (2011: 11,863,047) common shares reserved for this purpose. All outstanding options issued to date vest immediately at the grant date with the exception of 1,000,000 options granted to an employee effective January 1, 2012, 75,000 options granted to an employee effective January 9, 2013, and 400,000 options granted to a consultant effective September 20, 2012, of which 300,000 have not yet vested. The total unvested options are 1,375,000 (2011: 1,000,000). The options are granted at an exercise price not less than fair market value of the stock on the date of issuance. A summary of the Company's outstanding and exercisable stock options as at December 31, 2012 and 2011 and changes during these years is presented below.

	2012		2011	
	Number of options	**Weighted average exercise price $**	**Number of options**	**Weighted average exercise price $**
Outstanding, January 1	4,485,991	0.28	2,498,977	0.39
Options granted	2,607,500	0.25	3,099,000	0.23
Options exercised	(6,000)	0.25	(15,000)	0.27
Options expired	(816,991)	0.31	(1,096,986)	0.41
Outstanding, December 31	6,270,500	0.26	4,485,991	0.28
Exercisable, December 31	4,895,500	0.28	3,485,991	0.30

Weighted average life remaining for the options outstanding and exercisable is 2.3 years. The exercise prices for options outstanding at December 31, 2012 were as follows:

	All options		Exercisable options	
Exercise price:	**Number**	**Weighted average remaining contractual life (years)**	**Number**	**Weighted average remaining contractual life (years)**
$0.20	1,000,000	1.0	-	-
$0.25	1,923,500	2.0	1,923,500	2.0
$0.25	2,482,000	3.0	2,182,000	3.0
$0.25	75,000	4.0	-	-
$0.41	790,000	1.0	790,000	1.0
Total	6,270,500	2.1	4,895,500	2.3

The weighted average fair value of the options granted during the year was $0.14 (2011: $0.09). The fair value of the options granted was estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

	2012	2011
Risk-free interest rate	1.38%	1.63%
Expected life (years)	3.60	2.58
Volatility in the price of the Company's common shares	99%	94%
Dividend yield rate	0.00%	0.00%

16. CAPITAL AND OTHER COMPONENTS OF EQUITY (CONTINUED)

Warrants

	Number of warrants	Weighted average exercise price	Value
		$	$
Outstanding January 1, 2011	29,655,609	0.73	5,134,018
Warrants expired	(9,119,999)	0.72	(2,634,240)
Outstanding December 31, 2011	20,535,610	0.47	2,499,778
Issued on private placement	10,374,850	0.30	723,417
Agent warrants granted	1,223,509	0.20	117,027
Outstanding December 31, 2012	32,133,969	0.40	3,340,222

17. EARNINGS PER SHARE

Basic earnings per share

The calculation of basic and diluted earnings per share for the year ended December 31, 2012 was based on a weighted average number of common shares outstanding of 129,567,629 (2011: 118,626,151).

18. REVENUE

	2012	2011
	$	$
AFIRS Uptime sales	2,464,784	1,724,342
AFIRS Uptime usage	3,091,626	2,951,762
Parts sales	202,420	201,208
Services	710,976	589,887
Total	6,469,806	5,467,199

AFIRS Uptime sales includes revenue for both lease and sales type contracts. AFIRS Uptime usage includes UpTime monthly voice and data usage fees. Parts sales includes spare AFIRS units, spare installation kit parts and Underfloor Stowage Units. Services include technical, repair, and installation support services.

19. OTHER INCOME

Other income consists of the recognition of the SNC license fee that was deferred as unearned revenue when received and is being recognized over the initial five year term of the agreement (note 12).

20. OPERATING SEGMENTS

The Company has one operating segment.

Geographical Information

The following revenue is based on the geographical location of customers.

	For the year ended December 31	
	2012	**2011**
	$	**$**
North America	3,522,317	2,469,888
South / Central America	472,850	452,334
Africa / Middle East	1,729,862	1,787,817
Europe	150,247	133,246
Australasia	520,843	440,408
Asia	73,687	183,506
Total	6,469,806	5,467,199

All non-current assets (property and equipment and intangible assets) reside in Canada.

Major customers

Revenues from the three largest customers represent approximately 23.7% of the Company's total revenues for the year ended December 31, 2012 (2011: 26.1%).

21. DISTRIBUTION EXPENSES

	For the year ended December 31	
	2012	**2011**
	$	**$**
Salaries and benefits	1,829,053	1,790,460
Stock based compensation	95,458	84,815
Contract labour	559,096	770,297
Office	345,648	335,959
Travel	315,797	260,500
Equipment & maintenance	31,820	55,931
Depreciation	52,956	-
Marketing	61,773	102,104
Other	69,604	94,863
Total	3,361,205	3,494,929

22. ADMINISTRATION EXPENSES

	For the year ended December 31	
	2012 $	2011 $
Salaries and benefits	1,253,401	1,208,138
Stock based compensation	227,808	149,343
Contract labour	112,366	77,525
Office	324,465	312,217
Legal fees	142,378	173,895
Audit and accounting	104,855	129,086
Investor relations	93,709	135,443
Brokerage, stock exchange, and transfer agent fees	26,961	29,174
Travel	106,586	74,713
Equipment and maintenance	57,844	60,960
Depreciation	28,874	144,137
Other	17,522	22,880
Total	2,496,769	2,517,511

23. RESEARCH AND DEVELOPMENT EXPENSES

To date, all development costs have been expensed as incurred.

In 2012, FLYHT did not receive funding from the IRAP government grant through the National Research Council of Canada as the project was completed as of March 31, 2011. Under this project, funding of $90,031 was received in 2011 to develop the FLYHT Fuel Management System. The grant reimbursed a portion of FLYHT's salary and contractor costs. This grant was classified as related to income. FLYHT used the net presentation approach by reducing compensation expense relating to R&D.

In 2012, FLYHT also received payment for two claims totaling $879,854 (2011: $890,902) from SADI which is a repayable contribution. It was determined that the repayable contribution is at below market interest rates and therefore the payments were accounted for as a loan payable of $294,149 and a grant of $585,705. The grant portion was determined at the time of installment receipt as the difference between the principal value of the installment and the discounted cash flows assuming an 18% rate. The grant portion reimbursed a portion of FLYHT's costs related to the development of the AFIRS 228. This grant was classified as related to income. FLYHT used the net presentation approach by reducing R&D expenses.

	For the year ended December 31	
	2012 $	2011 $
Salaries and benefits	1,544,718	1,333,410
Stock based compensation	12,615	6,780
Contract labour	1,265,032	2,373,009
Office	303,740	101,826
Travel	60,419	78,940
Equipment and maintenance	48,704	147,314
Components	63,267	354,693
Government grants	(585,705)	(721,683)
SRED tax credit	(327,438)	(355,982)
Depreciation	22,385	-
Other	-	8,186
Total	2,407,737	3,326,493

24. FINANCE INCOME AND FINANCE COSTS

Recognized in profit or loss:

	For the year ended December 31	
	2012 **$**	**2011** **$**
Interest income on bank deposits	1,958	22,412
Net foreign exchange gain	10,830	66,406
Finance income	12,788	88,818
Bank service charges	20,721	21,328
Interest expense	12,300	8,662
Government grant interest expense	70,508	5,512
Debenture interest expense	402,275	379,479
Debenture cost amortization	78,546	78,331
Finance costs	584,350	493,312

25. INCOME TAX EXPENSE

	2012 **$**	**2011** **$**
Current income tax expense	3,809	10,219
	3,809	10,219

Unrecognized deferred tax assets

Deferred tax assets have not been recognized in respect to the following items:

	2012	**2011**
Capital assets	191,859	143,520
Intangibles	113,958	86,829
Inventory	4,327	7,676
Non-capital loss carry-forwards	9,122,110	8,400,861
Share issue costs	179,014	198,982
Scientific research and experimental development expenditures	6,286,853	5,525,055
	15,898,121	14,362,923

25. INCOME TAX EXPENSE (CONTINUED)

The Company has non-capital losses for income tax purposes of approximately $36,700,821 which are available to be applied against future year's taxable income. The benefit of these non-capital losses has not been recognized in the consolidated financial statements because it is not probable that future taxable profit will be available against which FLYHT can use the benefits. These losses will expire as follows:

Year	Amount $
2013	
2014	2,570,288
2015	2,461,959
2026	3,390,309
2027	5,596,948
2028	6,997,140
2029	2,791,748
2030	6,442,039
2031	3,627,617
2032	2,822,773
Total	36,700,821

Reconciliation of effective tax rate

	2012 $	2011 $
Loss for the period	(4,883,752)	(6,543,049)
Total income tax expense	3,809	10,219
Loss excluding income tax	(4,879,943)	(6,532,830)
Tax Rate	25.0%	26.5%
Expected income tax recovery	(1,219,986)	(1,731,200)
Change in tax rate and other	(374,542)	(586,097)
Non-deductible expenses	7,484	10,881
Stock based compensation	83,970	63,849
Change in unrecognized temporary differences	1,506,883	2,252,786
	3,809	10,219

26. FINANCIAL RISK MANAGEMENT

The Company's operating activities expose it to a variety of financial risks, including credit, liquidity and market risks associated with the Company's financial assets and liabilities. FLYHT has established procedures and policies to minimize its exposure to these risks, and continually monitors its exposure to all significant risks to assess the impact on its operating activities. The following details the Company's exposure to credit, liquidity, currency, and other market risks.

26. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Management considers the demographics of the Company's customer base, including the default risk of the industry and country in which customers operate. Approximately 9.0% (2011: 10.6%) of the Company's 2012 revenue is attributable to transactions with a single customer; however, geographically there is no concentration of credit risk.

Each new customer is analyzed individually for creditworthiness before the Company's standard payment and delivery terms and conditions are offered. Customers that fail to meet the Company's benchmark creditworthiness may transact with FLYHT only on a prepayment basis. The AFIRS solution is subject to a retention of title clause, so that in the event of non-payment the Company will have a secured claim. To further minimize credit exposure, the sale of most AFIRS solutions requires payment in advance of any product shipment. At each reporting date, the Company establishes an allowance for impairment that represents its estimate of incurred losses.

The aging of receivables at the reporting date was:

December 31, 2012	0-30 days $	31-60 days $	61-90 days $	91+ days $	Total $
Accounts receivable	757,953	385,839	48,448	30,251	1,222,491
Impairment	(5,073)	(7,572)	-	(349)	(12,994)
Net receivable	752,880	378,267	48,448	29,902	1,209,497

December 31, 2011	0-30 days $	31-60 days $	61-90 days $	91+ days $	Total $
Accounts receivable	335,723	174,268	132,855	140,119	782,965
Impairment	(54,577)	(33,547)	(13,355)	(600)	(102,079)
Net receivable	281,146	140,721	119,500	139,519	680,886

The Company believes that the unimpaired amounts that are past due by more than 30 days are still collectible, based on historic payment behavior.

The movement in the allowance for impairment in respect of trade and other receivables for the years ended December 31, 2012 and 2011 was:

	2012 $	2011 $
Balance, January 1	102,079	3,818
Provision	4,763	196,447
Amounts written off	(69,268)	(94,368)
Impairments recovered	(24,580)	(3,818)
Balance, December 31	12,994	102,079

Liquidity risk

The Company's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or risking damage to the Company's reputation. The Company manages its liquidity risks by having cash available, by maintaining a conservative capital structure, by prudently managing its credit risks, and by maintaining its relationship with the capital markets to meet any near-term liquidity requirements. The Company had a working capital deficiency at December 31, 2012, explained further in note 2(e).

26. FINANCIAL RISK MANAGEMENT (CONTINUED)

The following table details the contractual maturities of financial liabilities, including estimated interest payments.

December 31, 2012	**< 2 months**	**2-12 months**	**1-2 years**	**2-5 years**	**> 5 years**	**Total**
	$	**$**	**$**	**$**	**$**	**$**
Accounts payable	531,548	12,045		-	-	543,593
Accounts payable – SNC (note 27a)	1,790,571	-	-	-	-	1,790,571
Compensation and statutory deductions	136,007	180,051	-	-	-	316,058
Finance lease liabilities	4,058	20,291	14,029	-	-	38,378
Accrued liabilities	20,046	190,916	-	-	-	210,962
Loans and borrowings	24,785	313,736	3,482,088	245,218	1,464,132	5,529,959
Total	2,507,015	717,039	3,496,117	245,218	1,464,132	8,429,521

December 31, 2011	**< 2 months**	**2-12 months**	**1-2 years**	**2-5 years**	**> 5 years**	**Total**
	$	**$**	**$**	**$**	**$**	**$**
Accounts payable	1,441,147	99,120	-	-	-	1,540,267
Accounts payable – SNC (note 27a)	1,831,965					1,831,965
Compensation and statutory deductions	54,226	368,550	-	-	-	422,776
Finance lease liabilities	14,082	42,587	24,350	14,029	-	95,048
Accrued liabilities	10,200	89,136	23,894	4,344	-	127,574
Loans and borrowings	-	384,815	293,400	3,527,963	783,620	4,989,798
Total	3,351,620	984,208	341,644	3,546,336	783,620	9,007,428

Currency risk

A significant portion of the Company's revenues and a portion of its expenses are denominated in U.S. dollars. Management estimates that a 1% weakening of the Canadian dollar relative to the U.S. dollar would increase net earnings by approximately $62,317 (2011: $51,938) and a strengthening of the Canadian dollar would decrease net earnings by approximately $62,317 (2011: $51,938).

The Company mitigates its cash flow exposures by the international nature of the business where a significant portion of its cost of goods sold are in currencies that naturally hedge a portion of U.S. dollar revenue. The Company has not engaged in activities to manage its cash flow foreign currency exposure through the use of financial instruments.

The Company has exposure to foreign exchange risk for working capital items denominated in U.S. dollars. At December 31, 2012, negative working capital denominated in U.S. dollars was approximately $1,367,243 (2011: negative $1,483,550). As a result a 1% weakening of the Canadian dollar would decrease net earnings by approximately $13,672 (2011: $14,836) and a strengthening of the Canadian dollar would increase net earnings by approximately $13,672 (2011: $14,836).

The Company mitigates its working capital exposure by managing its U.S. dollar denominated working capital items to limit the requirement to convert either to or from U.S. dollars to fulfill working capital payment requirements.

Although there are limited expenses under contracts denominated in EUR, GBP and CHF, fluctuations in these currencies would result in insignificant foreign exchange variances. In respect of other monetary assets and liabilities denominated in foreign currencies, the Company ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

26. FINANCIAL RISK MANAGEMENT (CONTINUED)

Interest rate risk

Borrowings issued at variable rates result in exposure to interest rate risk, which would affect future cash flows if interest rates were to rise. Fluctuations in the prime interest rate could result in exposure for the Company with regards to the bank credit facility, which bears interest at Canadian chartered bank prime plus 1.5%. The Company's exposure to interest rate risk as at December 31, 2012 and 2011 was minimal as the credit facility had not been drawn.

Market risk

Market risk is the risk that changes in market conditions, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its financial instruments. The Company's objectives in managing market risk is to manage and control exposure, while optimizing return.

Fair values versus carrying amounts

The fair values of financial assets and liabilities approximate carrying values.

Capital management

FLYHT's objectives when managing capital are to safeguard the Company's ability to continue as a going concern. In order to maintain or adjust the capital structure, the Company may issue new debt, sell assets to reduce debt, or issue new shares. There were no changes in the Company's approach to capital management during the year.

27. CONTINGENCY

(a) The Company took action against SNC and is defending itself against an action by SNC related to the development of the AFIRS 228. The Company has accrued a liability of $1,790,571, which represents the total amount of invoices received from SNC. The Company maintains that the claims are without merit and that the services invoiced were not provided. Management intends to vigorously defend the matter and believes the outcome will be in its favour.

In November 2011, the Company formally notified SNC that they were in material breach of the License and Manufacturing Agreement that was entered into between the two parties on December 28, 2008. The Company demanded payment of $1,329,976 USD and $2,650,000 CDN and terminated the agreement. As well, the Company applied to the Alberta courts for arbitration under the provisions of the agreement. The courts granted the request for arbitration on November 29, 2011. Subsequent to the grant, SNC refused to recognize the jurisdiction of the court and has contested the cancellation of the agreement and the arbitration.

In November 2011, SNC filed an action in Utah alleging that FLYHT failed to pay $2,042,000 USD.

As all invoices presented to the Company by SNC have been accrued, management does not expect the outcome to have a material effect on the Company's financial position.

(b) In the second quarter of 2012, a full and final settlement was reached with a Toronto-based company for the outstanding claims and counterclaims that were commenced in September 2007 alleging the Company induced a breach of contract and interfered with economic relationships. The parties agreed to dismiss existing litigation on a without cost basis with no admissions of liability. Therefore there were no amounts to be recorded.

28. RELATED PARTIES

(a) Throughout 2012 the Company engaged in transactions with a company owned by a director to supply consulting services. The related party provided business development services such as trade show attendance and corporate introductions related to the business jet initiatives of the Company.

(b) Throughout 2012 the Company engaged in transactions with a company owned by a director to supply consulting services. The related party provided business development services such as market analysis and corporate introductions related to the commercial aviation initiatives of the Company.

	Included in contract labour:		Included in accounts payable and accrued liabilities:	
	For the year ended December 31		December 31	
	2012 $	2011 $	2012 $	2011 $
(a)	89,875	88,784	14,915	15,387
(b)	17,984	41,596	-	6,192
Total	107,859	130,380	14,915	21,579

All of the transactions with these related parties were amounts that were agreed upon by the parties and approximated fair value. All other transactions with related parties were normal business transactions related to their positions within the Company. These transactions included expense reimbursements for business travel and other expenses paid by the related party and were measured at exchange amounts that the related party paid to a third party and were substantiated with a third party receipt.

Transactions with key management personnel

Key management personnel includes all persons with direct or indirect authority and responsibility for planning, directing and controlling the activities of the Company, and includes directors and the FLYHT's executive team.

In addition to salary and variable compensation, the Company also provides non-cash benefits to key management personnel. Certain executive officers are entitled to a mutual term of notice of six months.

Compensation for this group comprised:

	2012 $	2011 $
Salary	815,596	824,136
Director fees	84,023	34,952
Variable compensation	169,218	215,640
Share-based payments	195,393	91,482
Short-term employee benefits	89,935	67,134
Total	1,354,165	1,233,344

Subsidiaries

	Country of Incorporation	Ownership interest
FLYHT Inc.	United States	100%
AeroMechanical Services USA Inc.	United States	100%
FLYHT Corp.	Canada	100%
FLYHT India Corp.	Canada	100%
TFM Inc.	Canada	100%

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