FLYHT AEROSPACE SOLUTIONS LTD.

Annual Report 2013

FLYHT™

The Future of Connectivity

THE FUTURE OF CONNECTIVITY

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FLYHT™
The Future of Connectivity

Global flights January 1, 2014

COMMONLY USED FINANCIAL TERMS & AVIATION ACRONYMS

ACARS: Aircraft Communications Addressing and Reporting System

ADCC: Aircraft Data Communication Corporation

AFIRS™: Automated Flight Information Reporting System

AVIC: Aviation Industry Corporation of China

CAAC: Civil Aviation Administration of China

COMAC: Commercial Aircraft Corporation of China, Ltd.

EASA: European Aviation Safety Agency

FAA: Federal Aviation Administration

FIRST: Fuel Initiative Reporting System Tracker

GAMA: General Aviation Manufacturers Association

GAAP: Generally Accepted Accounting Principles

ICAO: International Civil Aviation Organization

ICE: Iridium Compatible Equipment

IFRS: International Financial Reporting Standards

MD&A: Management Discussion and Analysis

NCAA: Nigerian Civil Aviation Authority

OEM: Original Equipment Manufacturer

R&D: Research and Development

SADI: Strategic Aerospace and Defence Initiative

SFP: Statement of Financial Position

STC: Supplemental Type Certificate

TCCA: Transport Canada Civil Aviation

YTD: Year-to-date

THE AVIATION INDUSTRY

Today the air transport industry operates a network of some **40,000** routes over which **3.3 billion** people and **50 million** tonnes of cargo will be carried in 2014. [1]

The industry is celebrating a huge milestone in 2014, **100 years** of commercial flight.

Passenger demand increased **5.2%** in 2013. [2]

Load factors at **79.5%** in 2013. [2]

Airbus deliveries increased for the **12th** year in a row. [3]

There is a positive market outlook for FLYHT with its new product, the Dragon™. "The industry's positive numbers across all categories fuel cautious optimism as we move into 2014," GAMA President and CEO Pete Bunce said. "The introduction of new products will be key to strong future growth, which is why GAMA continues to work with authorities across the globe to streamline certification processes." [4]

1. www.iata.org/pressroom/pr/Pages/2014-02-10-01.aspx
2. www.iata.org/pressroom/pr/Pages/2014-02-06-01.aspx
3. www.airbus.com/newsevents/news-events-single/detail/airbus-sets-new-records-in-orders-deliveries-and-backlog/
4. www.gama.aero/media-center/press-releases/content/gama-releases-2013-year-end-aircraft-shipment-and-billing-number

COMPANY PROFILE

THE FUTURE OF CONNECTIVITY

> *What was impossible yesterday is an accomplishment today, while tomorrow heralds the unbelievable.*
>
> Percible Elliot Fansler

In 1903 the Wright brothers pioneered the first aircraft and human flight. In 1914 the first commercial flight took place. Over the course of the past century the industry has exploded. With more than 3.3 billion passengers traveling in 2013, it took under a decade for passenger numbers to double; demontstrating just how many people are connected through flight in our global community.

Percible Elliot Fansler, the entrepreneur who started the first commercial air flight said, "what was impossible yesterday is an accomplishment today, while tomorrow heralds the unbelievable."

At FLYHT we strive to support the modernization of the aerospace industry by creating innovative solutions that facilitate seamless communication with aircraft. FLYHT is the innovator of a data streaming technology called FLYHTStream™. If an airplane encounters an emergency, live flight data will stream from the aircraft in real time. This technology opens new doors for increased safety and data analysis in the aerospace industry.

FLYHT Aerospace Solutions Ltd. got its start in 1998 with the technology to collect and interpret data from an aircraft and deliver it directly to the airline. Over the course of the past 14 years FLYHT has become a leader in real-time data communications for the aerospace industry. The technologies FLYHT offers are the Future of Connectivity™.

FLYHT's main product and service offering to the industry is the Automated Flight Information Reporting System, or AFIRS™. The system operates on multiple aircraft types and provides functions such as voice and text messaging, data collection and transmission, and on-demand streaming of black box data. Through its relationship with Iridium Communications Inc., FLYHT offers global satellite coverage that provides service to whoever needs it, whenever they need it, anywhere on the planet. AFIRS sends information to its companion software, UpTime™, which stores and transfers the data to the customer in real time. Aircraft operators can use this information to increase safety, improve service, and enhance profitability.

In November 2013, FLYHT introduced the Dragon™, a revolutionary, lightweight, portable satellite communications device that blends existing FLYHT technology with that of the iPad. FLYHT developed the new product to meet a growing demand from small aircraft, business jet and helicopter operators for a satellite communications solution similar to AFIRS.

FLYHT is headquartered in Calgary, Canada and has clients using its products on every continent. FLYHT has been publicly traded on the Toronto Venture Exchange since March 2003, first under the symbol AMA and now under FLY.

INVESTMENT HIGHLIGHTS

- *An unparalleled technology that saves money, time and drives efficiencies previously unavailable to the airline industry.*
- *Technology installed on over 400 aircraft.*
- *High margin operations – 75-85% gross margin with recurring revenues resulting from multi-year contracts.*
- *Multiple revenue streams to increase monthly average revenue per aircraft.*
- *Historical longevity of technology in the aviation industry means that once a technology has been accepted, it tends to remain for an extended period of time.*

HIGHLIGHTS OF THE YEAR

- FLYHT executed an agreement with Jabil Defense and Aerospace Services (a wholly-owned subsidiary of Jabil Circuit, Inc (NYSE:JBL)) to manufacture the AFIRS 228 product line.
- AFIRS 228 was approved on the SITA and ARINC Inc. ("ARINC") networks to provide ACARS over Iridium messages. Certification expands the market for customers requiring this type of communications system.
- AFIRS 228 received the Iridium Compatible Equipment ("ICE") certification for the commercial use of the AFIRS 228S on the Iridium satellite network.
- FLYHT introduced the Dragon as an exciting new member of the FLYHT family of products. The Dragon is a revolutionary lightweight portable satellite communications device that blends existing FLYHT technology with that of the iPad. FLYHT developed the new product to meet a growing demand from small aircraft, business jet and helicopter operators for a satellite communications solution similar to AFIRS.
- FLYHT added another commercial Original Equipment Manufacturer ("OEM") to its customer list with the agreement with Datang Mobile Aviation division in China for the AFIRS 228 to be standard fit on production ARJ21 aircraft.
- Shareholders exercised warrants and stock options for an aggregate of $6,144,886.
- FLYHT grew revenues by 23.7% over 2012, decreased cash used in operating activities by 36.4% and saw a 16.8% decrease in operating losses.
- Continued to secure Supplemental Type Certificates ("STCs"). Received two from TCCA and one from the FAA for the AFIRS 228.

Highlights:

Total revenue increased 23.7% from $6,469,806 in 2012 to $8,000,364 in 2013.

Research and Development ("R&D") is down $227,510: Note: R&D includes certification engineering which will be an ongoing cost for the company as we secure customers with different aircraft types.

Increase in Gross Margin: 59.2% annual (up from 57.2% in 2012).

FLY STOCK CHART 2013

2013 FLYHT REVIEW

LAST YEAR, WE SET A NUMBER OF OBJECTIVES. HERE'S AN OVERVIEW OF HOW WE DID:

Drive a substantially higher valuation through accelerated revenue growth and profitability

- Successfully increased revenues by 23.7% over the previous year.

Major Airbus operator for fleet retrofit 2013 and begin shipping from Airbus factory by late 2013

- SITA and ARINC ACARS over Iridium certification received in July allowed the company to progress with L-3 Communications Corporation, Aviation Recorders Inc. ("L-3").
- Began shipping units in December 2013 and January 2014.

Build on strategic relationships to accelerate growth

Continued to build relationships around the world and with various organizations:

- China: Continued to ship units to airlines in the country. Partnered to provide products to AVIC and COMAC. Agreement established to install AFIRS on the ARJ21 fleet.
- NetJets Transportes Aereos SA ("NetJets"): Installations on 10 aircraft complete in Q2 2013 with resulting AFIRS UpTime sales revenue and recurring usage revenue being realized each month. We continue to work with NetJets to advance the program.
- Nigeria: Continued flight tracking and safety management system dashboard with newly appointed Nigerian Civil Aviation Authority ("NCAA") Director General. Signed two new contracts with Nigerian airlines and added AFIRS to three existing customers' aircraft while supporting current operations and the flight following center.

Protect our markets by providing superior technology and service

- Expanded our STC list with activation STCs for the B767-200/300 and B737-700/800 from TCCA and on the B777 from the FAA.
- Launched the Dragon: Responded to an emerging trend in iPad connectivity and coupled it with our core competencies in aircraft communications and reporting to provide a light weight portable product for helicopters and general aviation.

Become cash flow positive in 2013

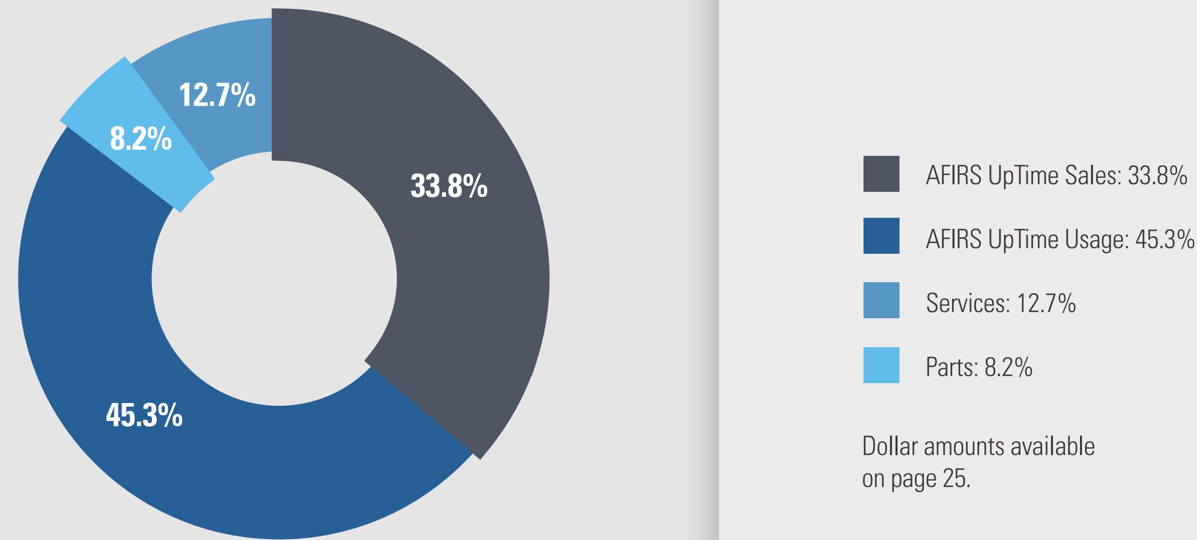
- Closer to cash flow positive by the end of 2013, as the result of revenue growth of 23.7%, an operating loss decrease of 16.8% and a decrease in cash used in operating activities of 36.4%.

2014 FLYHT PLAN

OBJECTIVES FOR 2014 INLCUDE:

- *Increase installations in China to meet mandate;*
- *Install on two business aircraft OEMs;*
- *Expand service modules to increase revenues;*
- *Pursue additional commercial OEM opportunity; and*
- *Positive cash flow from operations.*

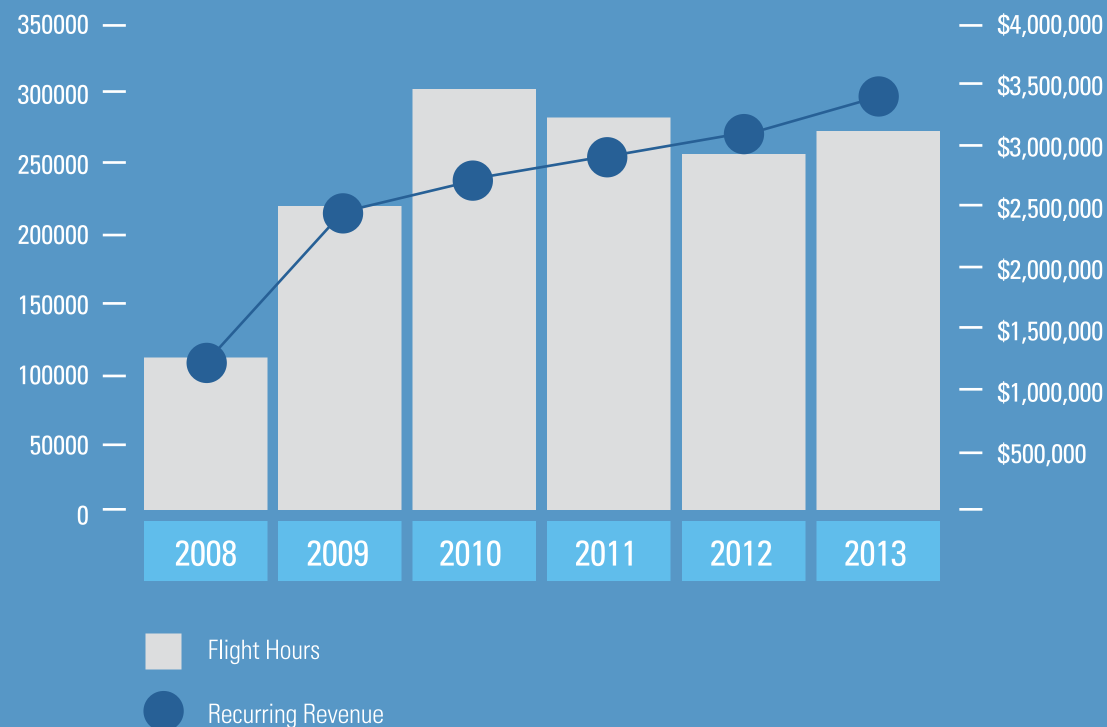
REVENUE SOURCES



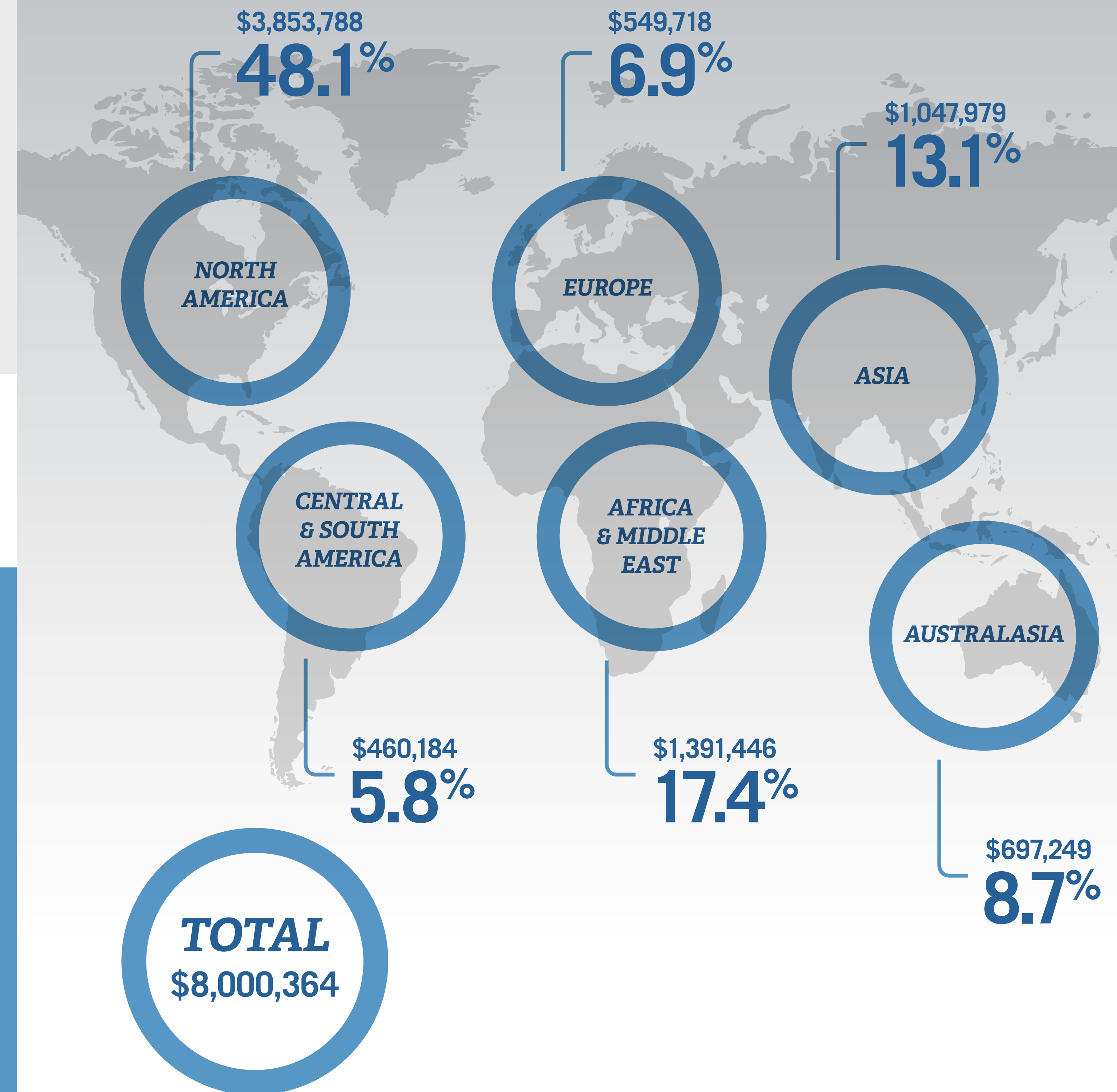
- AFIRS UpTime Sales: 33.8%
- AFIRS UpTime Usage: 45.3%
- Services: 12.7%
- Parts: 8.2%

Dollar amounts available on page 25.

AFIRS UPTIME USAGE GROWTH



REVENUE BASED ON LOCATION



AFIRS 228 UPDATE

THE AFIRS 228 IS FLYHT'S NEXT GENERATION COMMUNICATIONS TECHNOLOGY. HERE'S A SUMMARY OF HOW ITS DEVELOPMENT HAS PROGRESSED OVER THE PAST FEW YEARS.

2011

FLYHT brought AFIRS 228 development in-house

First AFIRS 228 demonstration May 2011 in Chester, UK

Activation STCs received on Bombardier CRJ 900, Hawker 987 series from TCCA

Introduced the next version of the AFIRS 228, the AFIRS 228S to enable ACARS over Iridium

2012

54 AFIRS 228B and six AFIRS 228S units built

Contract with L-3 to deliver 228S for installation on Airbus A320 production line

Option to install 228B on the factory floor at Bombardier for Chinese customers

Activation STCs received for AFIRS 228 on Boeing 747-200, ATR 42/72 and Boeing 777 from Transport Canada

First European Aviation Safety Agency ("EASA") activation STC for Hawker 987 series

2013

An agreement is made with Jabil Defense and Aerospace Services, to manufacture the AFIRS 228 product line

Activation STC received for the AFIRS 228 on Boeing 777 from the FAA, and Boeing 767-200/300, 737-700/800 from TCCA

AFIRS 228 approved for use on SITA and ARINC which enables it to send ACARS messages through Iridium

AFIRS 228S passed ICE certification for the commercial use on the Iridium satellite network

FLYHT assessed the current market and responded with a new product...

INTRODUCING THE DRAGON

In November 2013 FLYHT introduced the Dragon as its latest product. The Dragon is a lightweight portable satellite communications device that is coupled with the iPad to bring existing FLYHT technology to new customers around the globe.

FLYHT addressed the current market and responded with a new product, called the Dragon, to meet the demand of the growing small aircraft, business jet and helicopter operators. The Dragon enables a new level of connectivity previously not available to general aviation operators.

FEATURES

As with FLYHT's AFIRS product line, the Dragon uses the Iridium satellite network to bring global communications to aircraft operators. That means when they're flying, they're not alone. The Dragon enables two-way text messaging through the iPad or iPad Mini so pilots can send messages to dispatch and receive weather and flight-critical information.

The device is portable so it allows operators the flexibility of using it where and when they need it. FLYHT does not have to secure STCs, which are costly and take time to obtain, because the device is not installed on an aircraft. It is also an affordable satellite communications device for operators, allowing them greater operational awareness and connectivity, wherever they fly.

The Dragon also comes with a satellite phone enabled by the Iridium satellite network for rapid, reliable and private communication channel from the cockpit to the ground. In the event of an emergency, the single-touch emergency button directs the call to a pre-programmed contact on the ground.

The Dragon also meets the need of operators required to comply with specific regulations for flight following. With the Dragon, operators will know where their aircraft are and better respond to scheduling and maintenance issues as they arise.

The Dragon gives operators information to make key decisions. UpTime, FLYHT's ground based software, is the interface for operators to track aircraft information and respond accordingly. Collecting and monitoring the time the aircraft are on the ground or on route to a destination is important to determine crew pay, crew duty time and maintenance tracking. The Dragon allows operators to record these times on the iPad and sends the information to the operator. This increases the accuracy and speed of the reporting with far less labour from the staff and crew and eliminates the paper process.

MARKET

The Dragon has a global market as a product for tens of thousands of general aviation enthusiasts, corporate jet and helicopter operators. It has been tested and approved to meet the ADCC requirements for a satellite communications device on aircraft in China. At a cost of under $10,000 per unit, the Dragon will support operators world-wide while generating recurring revenues for FLYHT.

2013 MAJOR ANNOUNCEMENTS

CONTRACTS: In 2013 FLYHT signed a total of seven contracts with customers worldwide. Of the aircraft contracted, 26 were for the AFIRS 220, 21 for the AFIRS 228 and five were for the Dragon.

JANUARY 2: FLYHT signed a contract with a domestic Nigerian airline for the AFIRS 220 on five Airbus A319 and A320 aircraft.

JANUARY 7: FLYHT executed an agreement with Jabil Defense and Aerospace Services, to manufacture the AFIRS 228 product line.

Scott Gebicke, President of Jabil Defense & Aerospace Services and VP Global Business Units said: "FLYHT and the AFIRS product represent a disruptive innovation that can transform avionics data management and dissemination. We are proud to help FLYHT deliver the highest quality certified product to its growing customer base and will continue to support them in the development and delivery of their product family."

MAY 3: FLYHT received a purchase order from a major avionics integrator for AFIRS 228 equipment for seven Lockheed C-130 Hercules aircraft owned and operated by a Middle Eastern country's air force.

Bill Tempany, President and CEO of FLYHT stated: "We are excited to continue our success in the global C-130 upgrade programs and look forward to supplying the major global avionic integrators with the many benefits AFIRS 228 provides airlines. This is the second Middle Eastern air force to employ FLYHT's technology."

MAY 8: FLYHT appointed Mr. Derek Graham as Chief Operating Officer.

MAY 15: FLYHT signed a contract with a Maldivian airline to install AFIRS 220 on one Boeing 757 and the AFIRS 228B on two Boeing 767 aircraft.

MAY 28: FLYHT announced it closed the final tranche of its previously announced debt offering of non-convertible debentures. FLYHT closed on an aggregate $2.1 million of debentures (pursuant to two tranches) which FLYHT anticipates will be sufficient to meet anticipated liquidity needs.

JUNE 26: FLYHT received an activation STC for the AFIRS 228 on the Boeing 777 aircraft from the FAA.

Bill Tempany, President and CEO of FLYHT stated: "FLYHT has been diligently working towards securing the Boeing 777 STC from the FAA. This popular aircraft is flown around the world by several of our existing customers as well as several prospects we are pursuing. The receipt of this activation STC is the first from the FAA for the AFIRS 228."

JULY 19: FLYHT reported that the AFIRS 228 has been approved for use on the SITA network as a result of the completion of SITA's VHF AIRCOM Qualification ("VAQ") testing in Montreal, Canada. For AFIRS 228 to be qualified and validated to send ACARS and other Datalink messages over the SITA network it was a requirement that the Satcom system pass SITA's VAQ and compliance procedures.

JULY 30: FLYHT reported that the AFIRS 228 has been approved for use on the ARINC network to provide ACARS over Iridium messages. The approval was the result of completion of ARINC's GLOBALink/Iridium Phase 3 AQP testing in Annapolis, Maryland, which required AFIRS 228 to have the ability to send ACARS and other Datalink messages over the ARINC network through Iridium.

Bill Tempany, President and CEO of FLYHT stated: "This is a key milestone for the Company and its customers. To successfully pass the AQP testing on the first attempt is not the industry norm. We are thrilled that the certification program for FLYHT's products is proceeding as smoothly as planned, which is the result of the highly skilled and dedicated team that FLYHT has assembled. The certification of the AFIRS 228 opens an expanded market to major carriers requiring the AOI capability for FANS or CPDLC compliance for FLYHT. These approvals underpin an aggressive marketing push, which is well underway."

AUGUST 16: FLYHT reported that it received an activation STC for its AFIRS 228 on the Boeing 767-200/300 series aircraft from TCCA.

AUGUST 26: FLYHT's AFIRS 228 received ICE certification from Iridium for the commercial use of the AFIRS 228S on the Iridium satellite network.

Bill Tempany, President and CEO of FLYHT stated: "This is a key milestone for the Company and its customers. The ICE certification is another important step in the process of the AFIRS 228 development and allows activation of the units on the Iridium satellite network. We are pleased to continue to complete these tests on schedule and are excited to see shipment of these products occurring on schedule to all of our customers. All of the building blocks are coming into place for a very bright future and the AFIRS 228 product continues to show its strengths through the thorough testing it is being subjected to."

SEPTEMBER 23: FLYHT signed a contract with a Nigerian airline for AFIRS 220 on four Boeing 737 aircraft.

NOVEMBER 4: FLYHT signed a contract with an eastern European airline for AFIRS on four Boeing 757. The airline will use AFIRS to provide real-time flight data monitoring.

Bill Tempany, President and CEO of FLYHT stated: "We are excited to be catching a great opportunity in a part of the world that is expanding and needing global communications and data tools. We see the growth potential in Russia and the former Soviet countries as a strong growth market for us".

NOVEMBER 6: FLYHT reported that its Chinese partner Skyblue Technology Development Co. Ltd. issued a press release updating its commitment with FLYHT.

Skyblue stated "We are pleased to announce today that we have received commitments from the first seven airlines we have been working on to install the FLYHT AFIRS solution over the next three years and they have placed orders with us for 218 units. Installation of these is anticipated to commence in first quarter 2014 and we plan to add other airlines to this list in the coming months."

NOVEMBER 7: FLYHT received an activation STC for the AFIRS 228 on the Boeing 737- 700/800 series aircraft from TCCA.

NOVEMBER 12: FLYHT signed a contract with a South American cargo airline for AFIRS on 12 Boeing 737-400 and 12 ATR-200 aircraft. The airline is a cargo carrier with plans to be the dominant cargo carrier in the region with an integrated ground and air cargo operation. The company intends to use AFIRS as a key component of its paperless operational strategy, which is designed to reduce total operating costs and increase efficiencies.

Bill Tempany, President and CEO of FLYHT stated: "We are excited to be partnering with an operator who has a similar vision to ours and can see the competitive advantage of AFIRS for operational control and cost savings. We are confident that our AFIRS-based solutions will enable our customer's vision."

NOVEMBER 25: FLYHT introduced the Dragon as an exciting new member of the FLYHT family of products. The Dragon is a revolutionary, lightweight, portable satellite communications device that blends existing FLYHT technology with that of the iPad. FLYHT developed the new product to meet a growing demand from small aircraft, business jet and helicopter operators for a satellite communications solution similar to AFIRS.

Bill Tempany, President and CEO of FLYHT stated: "We are very excited to gain access into a new market with the Dragon, previously out of reach for our products. The tens of thousands of general aviation enthusiasts, corporate jet and helicopter operators will now be able to take full advantage of FLYHT's revolutionary technology. The device has been tested and approved by the ADCC of China for input into their Global Aircraft Management System ("GAMS"). We are looking forward to a rapid adoption of the technology by aviators globally."

DECEMBER 3: FLYHT announced an agreement to provide through Datang Mobile Aviation division, the AFIRS 228 real-time data communications and SATCOM solution complete with FLYHTStream. The system for Satcom voice and all other data services has been successfully installed on the ARJ21 and used during icing tests for the final validation of the Type Certificate for this aircraft. The ARJ21 has been under development by COMAC and certification testing by AVIC for several years and to date, has ordered 415 units from Chinese airlines, customers in Pakistan and various African countries. The first customer deliveries of the aircraft are expected in late 2014.

DECEMBER 4: FLYHT announced agreements with three investor relations ("IR") firms for services into 2014. The lead IR firm will remain The Howard Group Inc. with continued support from Bristol Institutional Relations, a division of Bristol Capital Ltd. and the addition of Kin Communications Inc., who will add a retail presence to the 2014 investor relations strategy.

DECEMBER 10: FLYHT announced the sale and shipment of five of its recently released Dragon products to DAC Aviation International Ltee./DAC Aviation (EA) Ltd. ("DAC") for five Cessna Caravan Aircraft to provide voice and data services in support of their humanitarian missions in Africa.

DECEMBER 24: FLYHT announced the exercise of warrants and stock options for an aggregate of $6,087,733 to date in Q4 of 2013.

TO OUR SHAREHOLDERS

A YEAR OF BUILDING STRENGTH

To our shareholders and loyal supporters;

2013 saw the culmination of many efforts that have consumed our company for several years. The final certification and delivery of an AFIRS 228S, the commercialization of the AFIRS 228B, the announcement and shipment of the Dragon and the completion of the program with L-3 for factory installation of AFIRS on the Airbus A320 are all major accomplishments for our company.

As we continue to progress in 2014 here's a review of what we achieved from our 2013 objectives.

Major Airbus operator for fleet retrofit 2013 and begin shipping from Airbus factory by late 2013

Important milestones during the year included the receipt of certification for the AFIRS 228S from SITA and ARINC in July 2013 to send ACARS messages over Iridium. The ACARS aviation protocol has been a mainstay of communicating air traffic messages for over 50 years. SITA and ARINC are the only two organizations approved to route those messages on the ground and from the ground to airborne equipment. In 2011 Iridium was approved to carry those messages by satellite instead of traditional VHF radio. With the certifications received from SITA and ARINC as well as the ICE certification in August of last year, AFIRS 228S can provide safety services voice and data communications between pilots and air traffic controllers. This capability was an original goal in the initiation of the AFIRS 228 project.

Continued development and receipt of certifications led to the first factory install shipment of AFIRS 228S in December of 2013 to a major European operator of Airbus A320 aircraft. The initial shipments achieved a small royalty payment in 2013. The initial deployment of these units will not generate recurring revenue for us as the ACARS over Iridium revenues go to the two ACARS providers, though we are working to secure the voice and Electronic Flight Bag ("EFB") data revenues for FLYHT and will expand services to those customers over time as we gain a foothold with major carriers from having our hardware on their fleets.

In 2014, FLYHT will continue to participate in working groups of the Airlines Electronic Engineering Committee ("AEEC") and the Radio Technical Commission for Aeronautics ("RTCA") that set industry standards, influence regulations and create value for airlines and the aviation industry. FLYHT's involvement enables a voice among industry participants, gains insight into customer needs and allows the company to better prepare AFIRS for industry requirements.

Priority to drive a substantially higher valuation through accelerated revenue growth and profitability

While we did not become cash flow positive in 2013 as we had hoped, we moved closer as the result of revenue growth of 23.7%. We will continue to strive to be cash flow positive throughout 2014. The increase in revenues is an outstanding achievement in our view because we did not finish many of the major products until the fourth quarter of the year. These project completions put us in good stead going forward to achieve even stronger growth in revenues, become a self-sustaining cash flow positive organization and start to show returns for the loyal shareholders who have been with us for many years.

We continued to reduce our cash burn, seen in the decrease in cash used in operating activities of 36.4% and the decrease of 16.8% in our operating losses. It is important to note that the engineering work associated with STC development is shown as R&D and therefore will always be an expense due to our continued expansion of STCs on different aircraft types.

One of the most exciting developments in 2013 was the exercise of warrants at the end of the year by shareholders. We were very pleased when all but 1.2 million of the 16.5 million $0.40 warrants expiring in December 2013 were exercised contributing to 2013's total of $6,144,886. The cash brought in from those warrants will be used to pay off our debts and we plan to have the convertible debenture converted this year or we will be repaying it in December. Even with the move of the principal payment of the $3,159,000, for that debenture into current liabilities, we have positive modified working capital and that is the measure we will be watching closely to make sure it continues to grow throughout the coming year.

Build on our strategic relationships to accelerate growth

We built on our strategic relationships in China to secure a partner to provide our products to AVIC and COMAC and see our continued strength in the China market as being a strong part of our core competencies acknowledged by shareholders.

China continued to expand with the installation of over 30 units now in place, an order in hand for another 218 units and the agreement to put AFIRS on as standard fit on the ARJ21 fleet (a twin engine airliner under development by COMAC). We are confident we have strengthened our position in China and that 2014 and beyond will be very good years for us in that market.

NetJets has used our system for eight months and have indicated they are very pleased with the results. We are currently working with them to identify a NetJets internal sponsor to move the program forward. As with everything in the aviation industry, it will take time but we are confident the end result will be very positive.

We continue to expand our presence with our three partners doing C-130 upgrades and as these time-tried aircraft come up for renewal, we plan to be an important part of their communications infrastructure.

Protect our markets by providing superior technology and service

As for protecting our markets with superior technology, we took an immerging trend, iPad connectivity, and coupled it with our core competencies in UpTime with Iridium to provide a lightweight portable product for helicopters and general aviation aircraft, the Dragon. We will continue to expand and protect our markets by providing innovative products to the industry.

Our team at FLYHT has been working hard to achieve our desired results and objectives. It is always a pat on the back when we receive customer feedback on the quality of our work. Here is some recent recognition we received.

"I have worked Tech Pubs for over 30 years and worked from various source data. I have seen many levels of quality. Working from your ICA and STC for the B767 AFIRS 220 data, I must say it is the most pristine documentation I have ever seen! Your content stands out head and shoulders above the rest."

"FIRST [Fuel Initiative Reporting System Tracker] is a key element to any fuel conservation initiative, it is the big "M" within the PEMC framework – Plan, Execute, Measure, Correct. And the system does it accurately and timely, always."

"FLYHT knowledge and flexibility to accommodate specific requirements is remarkable and makes the AFIRS and FIRST solutions a "must have" solution for the aviation companies engaged to be the most efficient as possible in terms of fuel usage."

2014 OBJECTIVES

As with last year, we have published a list of objectives that management will aim for in 2014.

The objectives are:

- Increase China installs to meet mandate
- Install on two business aircraft OEMs
- Expand service modules to increase revenues
- Pursue additional commercial OEM opportunity
- Positive cash flow from operations

Already in 2014 we have seen some positive news when in February we were recognized as a top ten performer in the Technology & Life Sciences Category of the 2014 TSX Venture 50®. The list is a ranking of strong performing companies trading on the TSX Venture Exchange. This marks our third appearance on the list, previously in 2008 and 2010, and we plan to continue to grow in the coming year.

We trust that 2014 is going to be a memorable year for FLYHT and want to thank our shareholders, our staff, our suppliers and customers who have been with us through thick and thin and assure everyone we are working toward a bright and positive future.

Bill Tempany, Chief Executive Officer

MANAGEMENT DISCUSSION & ANALYSIS

This management discussion and analysis ("MD&A") is as of April 14, 2014 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, 2013 and 2012 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, 2013 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. A clearer picture of short-term net cash requirements can be drawn by excluding these two items because those customer deposits and unearned revenue 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. 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, Singapore, 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 AFIRS 228 device continues to demonstrate its value in the marketplace. In 2013, it achieved new certification requirements for Supplemental Type Certificates ("STCs") and safety services messaging. FLYHT sold another 21 AFIRS 228 units during the year. The unit has received regulatory certification for installation on approximately eight widely used commercial aircraft brands and models.

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 component of the FLYHT Fuel Management System (FIRST can also be purchased as a stand-alone module) that eliminates uncertainty about the effectiveness of an airline's fuel savings initiatives. The system allows operators to customize and choose settings that are important to their operation. 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, in a dollar amount, are shown. The tool is de-identified to meet pilot union requirements, but can be filtered to display performance by pilot if desired.

THE DRAGON™

The Dragon is a revolutionary, lightweight, portable satellite communications device that blends existing FLYHT technology with that of the iPad. FLYHT developed the new product to meet a growing demand from small aircraft, business jet and helicopter operators for a satellite communications solution similar to AFIRS.

The device is portable, allowing operators the flexibility to use it where and when they need it. Because the Dragon is not installed on the aircraft, there is no need for STCs. The Dragon allows real-time voice and data communications enabled by the Iridium satellite network connected through the cockpit and the pilot's headset, though does not have data analysis or the safety services capabilities of other AFIRS products. An iPad application acts as an interface for the user in the cockpit to send and receive messages, such as weather updates, from the ground. Another key feature is flight following, so operators always know where their assets are in the sky.

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 two 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 B737-600, 700, 800
- Boeing B757-200
- Boeing B767-200, 300
- Bombardier DHC-8-100, 200, 300, 400
- Bombardier CRJ100, 200, 440
- DC-10
- Fokker F100
- Hawker Beech 750, 800XP, 850XP, 900XP
- Viking Air DHC-7 (LSTC)

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

- Airbus A319, 320, 321
- ATR 42, 72
- Boeing B737–700, 800
- Boeing 747-200
- Boeing B767-200, 300
- Boeing B777
- Bombardier CRJ-700, 900
- Hawker Beech 750, 800XP, 850XP, 900XP

FLYHT has received provisions-only STC approvals for AFIRS 228 on the following aircraft and expects full STCs in 2014:

- McDonnell Douglas MD-81, 82, 83, 87, 88

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

- Embraer Legacy 600

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

- Boeing B737-200, 300, 400, 500
- Boeing B747-400
- Boeing B757-200
- Bombardier DHC-8-400
- Dassault Falcon 2000

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

FLYHT examines the results of growth and measurements made by leading aviation groups in order to determine the health of the industry. AFIRS is a technology that can be installed on commercial, business or military aircraft while the Company's latest product, the Dragon, is available to the General Aviation market.

The airline industry saw a 5.2% increase in passenger demand in 2013 compared to the previous year. Load factors, meaning how close to capacity the flights were for the year, were near record levels at 79.5%, up 0.4 percentage points over 2012. Demand in international markets expanded at a faster rate (5.4%) than domestic travel (4.9%)[1]. Global freight traffic measured in Freight Tonne Kilometers ("FTK") was very slow at the beginning of 2013 and only grew by 1.4% over the whole year. 2014 is expected to be slow year for the cargo market.[2] 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 2013. Airbus delivered 626 commercial aircraft, including 1619 gross orders beating the previous record set in 2011 by 11 aircraft[3]. Boeing delivered 648 aircraft in 2013, an 8% increase from the previous year. The OEM also had record revenue for the year, a 6% increase from 2012[4]. Embraer delivered 90 commercial jets in 2013, a decrease from the previous year though they made up for it with an increase of the difference in deliveries of business jets[5]. Bombardier delivered 238 aircraft, compared to 233 for the previous year. During this same period, Bombardier received 81 firm orders for commercial aircraft[6].

The General Aviation Manufacturers Association ("GAMA") reported that numbers in worldwide general aviation airplane shipments rose 4.3% to 2,256 shipments in 2013 from 2,164 in 2012. Total shipments of helicopters also increased 7% in the year.[7]

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 achievements in 2013 were the certification of the AFIRS 228S in order to send Aircraft Communications Addressing and Reporting System ("ACARS") messages over Iridium; as well, as the Iridium Compatible Environment ("ICE") certification to send voice and data safety services messaging on the Iridium satellite network. The Company will continue to participate in industry working groups in 2014 to advance engineering and technical requirements and prepare for future development of the AFIRS product line to meet industry needs.

On the economic side of industry trends, the weakening of the Canadian dollar relative to the U.S. dollar during the fourth quarter of 2013 versus the same quarter of 2012 had a positive impact on the Company's revenue and income compared to the same quarter of 2012. 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 the majority 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/2014-02-06-01.aspx

2. http://www.iata.org/pressroom/pr/Pages/2014-02-05-01.aspx

3. http://www.airbus.com/newsevents/news-events-single/detail/airbus-sets-new-records-in-orders-deliveries-and-backlog/

4. http://boeing.mediaroom.com/2014-01-29-Boeing-Reports-Record-2013-Revenue-EPS-and-Backlog-and-Provides-2014-Guidance

5. http://www.embraer.com.br/Documents/noticias/008-Results%204Q13-Ins-VPF-I-14.pdf

6. http://www.bombardier.com/en/media-centre/newsList/details.bombardier-inc-q4c2013financialresults20140213.html?

7. http://www.gama.aero/media-center/press-releases/content/gama-releases-2013-year-end-aircraft-shipment-and-billing-number

CONTRACTS AND ACHIEVEMENTS OF FISCAL 2013

Contracts

FLYHT Aerospace Solutions Ltd. signed a total of a total of seven contracts on 52 aircraft with customers worldwide. 26 were for the AFIRS 220, 21 for the AFIRS 228 and five were for the Dragon.

In January, FLYHT signed a contract with a domestic Nigerian airline for the AFIRS 220 on five Airbus A319 and A320 Aircraft.

In May, FLYHT received a purchase order from a major avionics integrator for AFIRS 228 equipment for seven Lockheed C-130 Hercules aircraft owned and operated by a Middle Eastern country's air force.

Also in May, FLYHT signed a contract with a schedule Maldivian airline to install AFIRS 220 on one Boeing 757 and the AFIRS 228B on two Boeing 767 aircraft.

In September, FLYHT signed a contract with a Nigerian airline for AFIRS 220 on four Boeing 737 aircraft.

In November, FLYHT signed a contract with an eastern European airline for AFIRS on four Boeing 757.

Also in November, FLYHT signed a contract with a South American cargo airline for AFIRS on 12 Boeing 737-400 and 12 ATR-200 aircraft. The airline is a cargo carrier with plans to be the dominant cargo carrier in the region with an integrated ground and air cargo operation.

In December, FLYHT announced the sale and shipment of five of its recently released Dragon products to DAC Aviation International Ltee./DAC Aviation (EA) Ltd. ("DAC") for five Cessna Caravan Aircraft to provide voice and data services in support of their humanitarian missions in Africa.

Achievements

- AFIRS 228 was approved on the SITA and ARINC networks to provide ACARS over Iridium messages.
- AFIRS 228 received the ICE certification for the commercial use of the AFIRS 228S on the Iridium satellite network.
- FLYHT introduced the Dragon as an exciting new member of the FLYHT family of products. The Dragon is a revolutionary, lightweight, portable satellite communications device that blends existing FLYHT technology with that of the iPad. FLYHT developed the new product to meet a growing demand from small aircraft, business jet and helicopter operators for a satellite communications solution similar to AFIRS.
- FLYHT added another commercial OEM to its customer list with the agreement with Datang Mobile Aviation division in China for the AFIRS 228 to be standard fit on production ARJ21 aircraft.
- Shareholders exercised warrants and stock options for an aggregate of $6,144,886.
- FLYHT received an activation STC in June for the AFIRS 228 on the Boeing 777 aircraft from the FAA.
- FLYHT received an activation STC in August for its AFIRS 228 on the Boeing 767-200/300 series aircraft from TCCA.
- In September, FLYHT received an activation STC for the AFIRS 228 on the Boeing 737- 700/800 series aircraft from TCCA.

RESULTS OF OPERATIONS
YEAR ENDED DECEMBER 31, 2013 AND 2012

Quarterly Results

	Q4 2013 $	Q3 2013 $	Q2 2013 $	Q1 2013 $
AFIRS UpTime sales	592,483	583,742	1,009,837	521,777
AFIRS UpTime usage	1,080,503	881,903	846,438	815,874
Parts	79,716	307,588	61,586	206,672
Services	184,055	409,804	245,573	172,813
Revenue	**1,936,757**	**2,183,037**	**2,163,434**	**1,717,136**
Loss	1,438,795	615,950	1,038,283	970,136
Loss before R&D	745,444	174,987	680,936	281,570
Loss per share (basic & fully diluted)	0.01	0.00	0.01	0.01

	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

Selected Annual Information

	2013 $	2012 $	2011 $
Assets	8,435,962	4,968,972	5,509,709
Non-current financial liabilities	1,992,028	3,118,142	2,519,337
Revenue	8,000,364	6,469,806	5,467,199
Comprehensive loss	4,063,164	4,883,752	6,543,049
Comprehensive loss per share – basic & fully diluted	0.03	0.04	0.06

Liquidity and Capital Resource

The Company's cash at December 31, 2013 increased to $5,184,803 from $676,246 at December 31, 2012. The Company has an available operating line of $250,000 that was undrawn as at December 31, 2013. 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, 2013, the Company had negative working capital of $894,887 compared to negative $2,772,247 as of December 31, 2012, an improvement of $1,877,360. 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, 2013 would be positive $760,174 compared to positive $742,068 at December 31, 2012.

The Company funded 2013 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 $6,703,863. It is expected that R&D expenses will continue to decrease as the AFIRS 228 project moves into the next phase of enhancements and the finished product continues to generate revenues. 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 2014, it will be able to do so either through debt or equity instruments.

	December 31, 2013 $	December 31, 2012 $	Variance $
Cash and cash equivalents	5,184,803	676,246	4,508,557
Restricted cash	250,000	250,000	-
Trade and other receivables	784,426	1,209,497	(425,071)
Deposits and prepaid expenses	145,554	99,464	46,090
Inventory	1,308,243	1,663,918	(355,675)
Trade payables and accrued liabilities	(3,704,496)	(3,658,254)	(46,242)
Unearned revenue	(1,103,834)	(2,717,245)	1,613,411
Loans and borrowings	(3,745,513)	(271,832)	(3,473,681)
Finance lease obligations	(13,175)	(19,963)	6,788
Current tax liabilities	(895)	(4,078)	3,183
Working capital	**(894,887)**	**(2,772,247)**	**1,877,360**
Unearned revenue	1,103,834	2,717,245	(1,613,411)
Customer deposits	551,227	797,070	(245,843)
Modified working capital	**760,174**	**742,068**	**18,106**

As of December 31, 2013, the Canadian equivalent of the Company's outstanding accounts payable to Sierra Nevada Corporation ("SNC") was $1,921,384 (December 31, 2012: $1,790,571) relating to their involvement with the development of the AFIRS 228. The outstanding amount in USD remained unchanged from 2012 to 2013. If this amount was removed from the working capital it would be positive $1,026,497 at December 31, 2013 and negative $981,676 at December 31, 2012. As well, the modified working capital would be a positive $2,681,558 at December 31, 2013 and positive $2,532,639 at December 31, 2012. 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 for 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 $1,921,384 is presently under dispute in the courts. See the Contingency section on page 39 for further clarification.

In two tranches on April 18 and May 28, 2013, the Company issued an aggregate $2,110,000 of debentures in a debt offering. The debentures mature on June 30, 2016 and bear interest at a rate of 12% per annum on the contributed amounts, which shall be accrued and paid annually in arrears commencing December 1, 2013. Purchasers of debentures received a capital discount premium of 10% on the financing, meaning that for every $1.00 debenture acquired, FLYHT shall owe, on the maturity date, principal equal to $1.10 to the debenture holder. The purchasers of the debentures were also issued one common share of the Corporation for every $1.00 principal amount of debentures acquired pursuant to the offering. A total of 2,110,000 common shares were issued under these tranches. All of the securities issued thereunder were subject to a 4-month hold period. The debentures are not listed on any stock exchange and are not convertible into common shares. The debentures are secured against all personal property of FLYHT, including FLYHT's intellectual property and are subordinated in right of payment to all existing and future secured bank and/or governmental indebtedness of FLYHT and any existing security already registered against FLYHT's assets. The fair value of the debenture was determined at the time of issue as the difference between the principal value of the debentures and the discounted cash flows assuming an 18% rate.

In 2013 a total of 16,007,102 warrants were exercised, each exercisable into one common share for total proceeds of $6,051,986:

(a) 1,071,522 warrants were exercised with an exercise price of $0.20 per share for proceeds of $214,304

(b) 1,365,500 warrants were exercised with an exercise price of $0.30 per share for proceeds of $409,650, and

(c) 13,570,080 warrants were exercised with an exercise price of $0.40 per share for proceeds of $5,428,032

Also in 2013, a total of 314,000 stock options were exercised for total proceeds of $92,900, with each stock option exercised into one common share:

(a) 224,000 stock options were exercised with an exercise price of $0.25 for proceeds of $56,000, and

(b) 90,000 stock options were exercised with an exercise price of $0.41 per share for proceeds of $36,900

As at April 14, 2014, FLYHT's issued and outstanding share capital was 163,045,548.

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.

Foreign currency fluctuations

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, enables 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 the product does fill a gap in the industry, as evidenced by sales of the AFIRS 228 throughout 2013. The Company expanded its reach to meet the needs of another sector of the industry, general aviation operators. FLYHT released the Dragon in the fall of 2013, to fill the demand for a portable satellite communications device. The product was invented after industry research was conducted, as well of the Company's awareness of general aviation operators' demand for increased connectivity. The Company's success will ultimately depend on the success of both products, and future enhancements made to both.

Availability of key supplies

FLYHT produces and builds all AFIRS 220 units in-house, while AFIRS 228 units are built by a contract manufacturer. The Company relies on partners, suppliers and special parts to complete unit builds. Certain parts can be delayed in shipping or availability, which can cause a delay in building the AFIRS 220 or in receiving AFIRS 228 completed units. FLYHT aims to avoid the risk of not having the necessary supplies by managing inventories and storing extra key parts. The contract manufacturer is a global supplier with the ability to meet FLYHT's requirements. Additionally, the Company maintains close communication with its partners and suppliers to ensure all key components for the AFIRS units 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 in 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 for AFIRS Uptime sales and parts revenue occurs in a series of steps. The process begins with the receipt of customer deposits, followed by shipment, installation and finally customer 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 Parts 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, 2013 and 2012. Payment was received for 10 installation kits in the fourth quarter of 2013, compared to 17 received in the fourth quarter of 2012, bringing 2013 year-to-date ("YTD") total payments for installation kits to 42, compared to a total of 78 in 2012.

	Q4 2013 $	Q4 2012 $	Variance $	YTD 2013 $	YTD 2012 $	Variance $
Opening balance	622,082	1,033,613	(411,531)	797,070	980,955	(183,885)
Payments received from customers	188,809	763,366	(574,557)	1,204,677	3,262,045	(2,057,368)
Moved to unearned revenue	(259,664)	(999,909)	740,245	(1,450,520)	(3,445,930)	1,995,410
Balance, December 31	**551,227**	**797,070**	**(245,843)**	**551,227**	**797,070**	**(245,843)**

Unearned revenue

The chart below outlines the movement in the Company's unearned revenue throughout the periods ending December 31, 2013 and 2012. Revenue was recognized for 15 installation kits in 2013's fourth quarter compared to 26 in the fourth quarter of 2012. Revenue was recognized for 62 installation kits in 2013, as compared to 59 in 2012. In 2013, 77.7% of the unearned revenue balance at December 31, 2012 was recognized as earned revenue (2012: 71.1%).

	Q4 2013 $	Q4 2012 $	Variance $	YTD 2013 $	YTD 2012 $	Variance $
Opening balance	1,494,153	2,741,596	(1,247,443)	2,717,245	1,897,204	820,041
AFIRS UpTime sales: shipped, not accepted	259,664	999,909	(740,245)	1,450,520	3,445,930	(1,995,410)
AFIRS UpTime usage: prepaid	25,090	116,694	(91,604)	414,228	376,981	37,247
AFIRS UpTime sales: revenue recognized	(578,936)	(1,063,933)	484,997	(2,694,292)	(2,464,784)	(229,508)
AFIRS UpTime usage: revenue recognized	(31,757)	(12,641)	(19,116)	(526,347)	(280,566)	(245,781)
License fees: revenue recognized	(64,380)	(64,380)	-	(257,520)	(257,520)	-
Balance, December 31	**1,103,834**	**2,717,245**	**(1,613,411)**	**1,103,834**	**2,717,245**	**(1,613,411)**

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 23.7% from $6,469,806 in 2012 to $8,000,364 in 2013. AFIRS Uptime sales increased by 9.9%, AFIRS Uptime usage increased by 17.2%, Parts sales increased by 223.9%, and Services revenue increased by 42.4%. Fourth quarter revenue decreased 12.8% from $2,220,401 in Q4 2012 to $1,936,757 in Q4 2013, due to decreases in AFIRS Uptime sales of 44.3%, Parts sales of 6.4% and Services revenue of 38.0%. These decreases were partially offset by a 39.5% increase in AFIRS Uptime usage.

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, 2013, there were no customers with a rental type contract (2012: one customer). 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 2013 $	Q4 2012 $	Variance $	YTD 2013 $	YTD 2012 $	Variance $
AFIRS UpTime sales	592,483	1,063,933	(471,450)	2,707,839	2,464,784	243,055
AFIRS UpTime usage	1,080,503	774,657	305,846	3,624,718	3,091,626	533,092
Parts	79,716	85,138	(5,422)	655,562	202,420	453,142
Services	184,055	296,673	(112,618)	1,012,245	710,976	301,269
Total	**1,936,757**	**2,220,401**	**(283,644)**	**8,000,364**	**6,469,806**	**1,530,558**

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 45.3% of revenue in 2013, compared to 47.8% in 2012. Approximately 55.8% of the Company's revenue in the fourth quarter of 2013 was recurring, compared to 34.9% in the fourth quarter of 2012. 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 2013 $	Q4 2012 $	YTD 2013 $	YTD 2012 $
North America	731,995	1,162,883	3,853,788	3,522,317
South/Central America	167,765	87,861	460,184	472,850
Africa/Middle East	590,523	817,314	1,391,446	1,729,862
Europe	41,488	13,036	549,718	150,247
Australasia	187,923	135,363	697,249	520,843
Asia	217,063	3,944	1,047,979	73,687
Total	**1,936,757**	**2,220,401**	**8,000,364**	**6,469,806**

	Q4 2013 %	Q4 2012 %	YTD 2013 %	YTD 2012 %
North America	37.8	52.3	48.1	54.5
South/Central America	8.7	4.0	5.8	7.3
Africa/Middle East	30.5	36.8	17.4	26.7
Europe	2.1	0.6	6.9	2.3
Australasia	9.7	6.1	8.7	8.1
Asia	11.2	0.2	13.1	1.1
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's 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 2013 was 39.6% compared to 34.1% in 2012's fourth quarter. A review of the annual results shows the cost of sales as a percentage of revenue also decreased from 42.8% in 2012 to 40.8% in 2013. 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:

	2013				2012			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Gross Margin %	60.4	56.9	54.5	66.6	65.9	60.1	43.7	54.8
Cost of Sales %	39.6	43.1	45.5	33.4	34.1	39.9	56.3	45.2

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.

Distribution expenses (recovery)

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

Major Category	Q4 2013 $	Q4 2012 $	Variance $	YTD 2013 $	YTD 2012 $	Variance $
Salaries and benefits	388,747	463,650	(74,903)	1,506,626	1,829,053	(322,427)
Share based compensation	-	(40,645)	40,645	85,071	95,458	(10,387)
Contract labour	79,900	120,945	(41,045)	275,059	559,096	(284,037)
Office	87,594	81,078	6,516	366,439	345,648	20,791
Travel	106,426	65,429	40,997	403,319	315,797	87,522
Equipment & maintenance	9,157	5,369	3,788	25,413	31,820	(6,407)
Depreciation	11,817	13,281	(1,464)	46,129	52,956	(6,827)
Marketing	15,797	12,550	3,247	41,441	61,773	(20,332)
Other	134,890	12,987	121,903	206,949	69,604	137,345
Total	**834,328**	**734,644**	**99,684**	**2,956,446**	**3,361,205**	**(404,759)**

Salaries and benefits decreased in 2013 as compared to 2012 both in the quarter and YTD mainly due to decreased staffing requirements to meet AFIRS 228 development needs. The decreased costs were allocated between distribution and research and development expenses as the decreased staff's efforts had been split between meeting the needs of existing and future customers, and AFIRS 228 development. A portion of the decrease was the result of non-renewal of a sales director's employment agreement.

Share based compensation decreased YTD due to a higher option grant in 2012 than in 2013, partially offset by the vesting in the first three quarters of 2013 of options granted in 2012. The recovery in Q4 2012 was due to a decrease in the calculated fair value per share of unvested options.

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

Office expenses increased in the quarter and YTD 2013 from 2012 mainly as the result of additional membership fees for industry groups FLYHT has become involved with in 2013, together with an increased YTD rent allocation, offset partially by decreased communication and other costs in 2013 YTD due to cost containment measures.

Travel expenses increased in 2013 versus 2012 largely as the result of increased travel and meals associated with sales activities. It is anticipated that as the AFIRS 228 rollout continues, travel expenses will continue to increase on an annual basis and quarterly fluctuations will continue to occur.

Equipment and maintenance decreases throughout 2013 were due to costs associated with the movement of the UpTime hosting centre in 2012 to accommodate growth in the installation base that was not repeated in 2013. This decrease is partially offset in the fourth quarter by increased maintenance and costs associated with supporting the growth that prompted the move and with additional steps taken to ensure maximum reliability of UpTime data.

Depreciation expense decreased in the quarter and throughout 2013 due to a decrease in the need to acquire capital equipment.

Marketing expenses decreased throughout 2013 partially offset by an increase in Q4, due to the reduced requirement for marketing collateral throughout 2013 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 expenses decreased from 2012 to 2013 due to differences in bad debt adjustments. An increase in reserve of $12,897 was recorded in Q4 2012, whereas the adjustment made in Q4 2013 for potential bad debt amounted to $134,890.

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 2013 $	Q4 2012 $	Variance $	YTD 2013 $	YTD 2012 $	Variance $
Salaries and benefits	520,345	359,289	161,056	1,498,854	1,253,401	245,453
Share based compensation	8,558	13,075	(4,517)	260,091	227,808	32,283
Contract labour	25,250	48,608	(23,358)	141,271	112,366	28,905
Office	76,660	78,561	(1,901)	305,104	324,465	(19,361)
Legal fees	12,636	15,169	(2,533)	36,405	142,378	(105,973)
Audit and accounting	27,000	21,550	5,450	122,625	104,855	17,770
Investor relations	67,432	33,250	34,182	243,975	93,709	150,266
Brokerage, stock exchange, and transfer agent fees	2,865	1,941	924	27,377	26,961	416
Travel	24,368	38,319	(13,951)	96,585	106,586	(10,001)
Equipment and maintenance	16,025	15,419	606	55,462	57,844	(2,382)
Depreciation	5,980	7,240	(1,260)	23,920	28,874	(4,954)
Other	18,396	7,608	10,788	47,453	17,522	29,931
Total	**805,515**	**640,029**	**165,486**	**2,859,122**	**2,496,769**	**362,353**

Salaries and benefits increased throughout 2013 compared with 2012, mainly due to an increase in project management staff to effect greater efficiency, partially offset by the reduction of a full time investor relations staff member, replaced by the reengagement of an Investor Relations ("IR") consultant in Q3 2012.

Share based compensation increased YTD due to the vesting throughout 2013 of options granted to IR consultants in the third quarter of 2012 and the first and fourth quarters of 2013, in addition to employee options issued in the second quarter of 2013. The variance in Q4 is due to a decrease in the calculated fair value per share of unvested options.

Contract labour increased YTD due to the engagement in mid-2012 of a consultant working to identify new corporate opportunities. The QTD decrease was due to a non-recurring consulting fee in late 2012.

Office expenses decreased in both the fourth quarter and year over year from 2012 to 2013 mainly as the result of a decreased YTD rent allocation.

Legal fees decreased in both the quarter and YTD, due to reduced requirements for legal services with regards to research on international business processes and the implementation of the appropriate policies and documentation, the Q2 2012 closure of legal proceedings with the Toronto-based company, and the reduced legal services requirements in the action against SNC throughout 2013 (Contingencies, page 39). Non-recurring legal fees associated with FLYHT's name change in Q2 2012 also contributed to the quarter and YTD decreases.

Audit and accounting increases in the quarter and YTD are mainly due to an increased requirement for international tax consulting.

Investor relations expenses increased in the third quarter of 2013 and YTD, due to the reengagement of an IR consultant near the end of 2012 and the addition of a second IR consultant in the first quarter of 2013.

Travel expenses decreased in the quarter and throughout 2013 compared to 2012 as a result of decreased 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 2013, partially offset in the fourth quarter.

Depreciation expense decreased in the quarter and throughout 2013 due to a decrease in the need to acquire capital equipment.

Other expense increased in the quarter and year to date due to an employee relocation expense in 2013.

Research and development expenses (recovery)

Major Category	Q4 2013 $	Q4 2012 $	Variance $	YTD 2013 $	YTD 2012 $	Variance $
Salaries and benefits	412,139	302,017	110,122	1,536,904	1,544,718	(7,814)
Share based compensation	-	-	-	13,542	12,615	927
Contract labour	145,480	68,135	77,345	533,107	1,265,032	(731,925)
Office	94,731	35,261	59,470	188,579	303,740	(115,161)
Travel	8,210	14,278	(6,068)	48,734	60,419	(11,685)
Equipment & maintenance	1,799	13,423	(11,624)	33,154	48,704	(15,550)
Components	25,622	65,908	(40,286)	264,587	63,267	201,320
Government grants	-	44,870	(44,870)	(130,801)	(585,705)	454,904
SRED credit	-	31,512	(31,512)	(326,195)	(327,438)	1,243
Depreciation	4,415	5,607	(1,192)	17,661	22,385	(4,724)
Other	955	-	955	955	-	955
Total	**693,351**	**581,011**	**112,340**	**2,180,227**	**2,407,737**	**(227,510)**

Salaries and benefits expended on research and development decreased throughout 2013, as the 228B moved toward full production. This was partially offset by increases in Q4 as R&D needs increased due to the requirements for launching the Dragon in late 2013, together with a short-term increase required to complete Chinese installation documentation.

Contract labour decreased from 2012 YTD, mainly as the result of reduced utilization of consultants for hardware development. The YTD decrease was partially offset due to the increased activity required for launching the Dragon in late 2013.

Office expenses decreased YTD as the result of decreased costs associated with patent applications. Legal requirements associated with the SNC legal action were lower in 2013 than 2012 overall, with an increase in Q4 2013 as compared to Q4 2012.

Components requirements decreased in the quarter while increasing YTD, due to a requirement in earlier 2013 for a number of test parts used in developing enhanced functionality of recently developed products.

Government grants variance YTD is due to a larger portion of SADI grant funds received in 2012 than 2013. 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 Q4 2012 was the result of the Canada Revenue Agency Scientific Research and Experimental Development ("SRED") program's final review of the Company's 2010 SRED claim.

Net finance costs

Major Category	Q4 2013 $	Q4 2012 $	Variance $	YTD 2013 $	YTD 2012 $	Variance $
Interest income	-	11	(11)	2,221	1,958	263
Net foreign exchange gain	-	-	-	-	10,830	(10,830)
Bank service charges	4,772	5,291	(519)	21,388	20,721	667
Interest expense	1,315	1,641	(326)	10,187	12,300	(2,113)
Government grant accretion	35,413	28,320	7,093	123,460	70,508	52,952
Debenture interest and accretion	200,748	106,061	94,687	657,620	402,275	255,345
Debenture cost amortization	21,822	19,744	2,078	84,136	78,546	5,590
Net foreign exchange loss	75,619	31,643	43,976	165,432	-	165,432
Net finance costs	**339,689**	**192,689**	**147,000**	**1,060,002**	**571,562**	**488,440**

Interest income decreased in the quarter and YTD as a result of decreased average cash balances in 2013 as compared to 2012.

Net foreign exchange losses were recorded in 2013 compared to Net foreign exchange gains in 2012 due to the relative weakness of the Canadian dollar in relation to the U.S. dollar. Net foreign exchange losses were recorded in the fourth quarter of both 2012 and 2013, also due to the relative weakness of the Canadian dollar in relation to the U.S. dollar.

Interest expense decreased YTD mainly due to differences in interest owing on a short-term loan.

Government grant accretion is the recognition of the effective interest component of the SADI grant, which increased throughout 2013 as more funding was received.

Debenture interest increases are the result of increased interest accretion on the debentures issued in December 2010, and also the accretion of interest throughout 2013 on the debentures issued in April and May 2013.

Net loss

Major Category	Q4 2013 $	Q4 2012 $	Variance $	YTD 2013 $	YTD 2012 $	Variance $
Net loss	1,438,795	621,446	817,349	4,063,164	4,883,752	(820,588)
Net loss without R&D	745,444	40,436	705,008	1,882,937	2,476,015	(593,078)

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 2013, 95.4% of the Company's gross sales were made in U.S. dollars, compared to 96.1% in 2012. 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	
	2013 $	2012 $	2013 $	2012 $	2013 $	2012 $
(a)	-	22,394	-	89,875	-	14,915
(b)	-	16,219	17,984	41,596	-	6,192
Total	**-**	**22,394**	**-**	**107,859**	**-**	**14,915**

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

CONTRACTUAL OBLIGATIONS

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

December 31, 2013	< 2 months $	2-12 months $	1-2 years $	2-5 years $	> 5 years $	Total $
Accounts payable	581,557	18,726	-	-	-	600,283
Accounts payable – SNC*	1,921,384	-	-	-	-	1,921,384
Compensation and statutory deductions	296,223	216,583	-	-	-	512,806
Finance lease liabilities	4,059	9,970	-	-	-	14,029
Accrued liabilities	40,678	75,930	-	-	-	116,608
Loans and borrowings	-	3,751,695	344,026	2,781,399	1,507,480	8,384,600
Total	**2,843,901**	**4,072,904**	**344,026**	**2,781,399**	**1,507,480**	**11,549,710**

** See contingencies section on page 39.*

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

Under the Industrial Research Assistance Program ("IRAP"), the outstanding balance at December 31, 2013 was nil compared to $66,690 at December 31, 2012. The initial amount was 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 $12,364 at December 31, 2013, compared to $28,074 at December 31, 2012. 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, 2013, an outstanding repayable balance of $1,967,507, compared to $1,770,756 at December 31, 2012. The amount is repayable over 15 years on a stepped basis commencing April 30, 2014. The initial payment on April 30, 2014 is 3.5% of the total contribution received and increases yearly by 15% until April 30, 2028 when the final payment is 24.5% of the total contribution received.

In the fourth quarter of 2013, FLYHT entered into an operating lease agreement covering equipment valued at $27,657 required for a security system in the new premises effective March 1, 2014. The lease has a term of 36 months, with the option to purchase the equipment at the end of the lease term. During the fourth quarter of 2012, FLYHT did not enter into any new lease agreements. Current lease agreements are scheduled to be paid in full in 2014. Minimum lease payments in 2014 for existing finance leases total $14,028. The imputed interest included in the payments is $853 (2012 - $5,240) leaving a total obligation of $13,175 (2012 - $33,138).

CRITICAL ACCOUNTING 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. 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, 2013, no deferred tax assets were recognized.

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

4. 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.

5. 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.

6. 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.
7. 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. All outstanding debentures have a fixed rate of interest and therefore do 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

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 $1,921,384, 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.

SUBSEQUENT EVENT

As of April 14, 2014, the Company issued a total of 4,228,280 shares due to warrant and option exercises for total proceeds of $1,333,387, including:

a) 1,971,500 warrants exercised at $0.30 for proceeds of $591,450

b) 1,405,780 warrants exercised at $0.40 for proceeds of $562,312

c) 718,500 options exercised at $0.25 for proceeds of $179,625

RECENT ACCOUNTING PRONOUNCEMENTS

The following new standards, interpretations, amendments and improvements to existing standards issued by the IASB or International Financial Reporting Interpretations Committee ("IFRIC") were adopted as of January 1, 2013 without any material impact to FLYHT's financial statements: IFRS 7 Financial Instruments: Disclosures, IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosure of interests in Other Entities, IFRS 13 Fair Value Measurement, and IAS 9 Employee Future Benefit, IAS 36 Fair Value Measurement (IAS 36 was early 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, 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, 2018).

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, 2013).

IAS 39 – Novation of Derivatives and Continuation of Hedge Accounting provides some relief from the discontinuation of hedge accounting when a novation is made as a consequence of laws or regulations or the introduction of laws or regulations, subject to certain criteria (January 1, 2014).

IFRIC 21 Levies requires a liability for a levy be recognized only when the triggering event specified in the legislature occurs, even if an entity has no realistic opportunity to avoid the triggering event (January 1, 2014).

The Company has not completed its evaluation of the effect of adopting these standards on its consolidated annual 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, 2013 and December 31, 2012, 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, 2013 and December 31, 2012, 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, 2013 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..

KPMG LLP

Chartered Accountants
April 14, 2014
Calgary, Canada

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	December 31, 2013 $	December 31, 2012 $
Assets		
Current assets		
Cash and cash equivalents (note 6)	5,184,803	676,246
Restricted cash (note 13)	250,000	250,000
Trade and other receivables (note 7)	784,426	1,209,497
Deposits and prepaid expenses	145,554	99,464
Inventory (note 8)	1,308,243	1,663,918
Total current assets	7,673,026	3,899,125
Non-current assets		
Property and equipment (note 9)	191,695	240,725
Rental assets	-	38,726
Intangible assets (note 10)	34,992	62,623
Inventory (note 8)	536,249	727,773
Total non-current assets	762,936	1,069,847
Total assets	8,435,962	4,968,972
Liabilities		
Current liabilities		
Trade payables and accrued liabilities (note 11)	3,704,496	3,658,254
Unearned revenue (note 12)	1,103,834	2,717,245
Loans and borrowings (note 13)	3,745,513	271,832
Finance lease obligations	13,175	19,963
Current tax liabilities (note 25)	895	4,078
Total current liabilities	8,567,913	6,671,372
Non-current liabilities		
Loans and borrowings (note 13)	1,992,028	3,104,967
Finance lease obligations	-	13,175
Provisions (note 15)	148,428	46,452
Total non-current liabilities	2,140,456	3,164,594
Total liabilities	10,708,369	9,835,966
Equity (deficiency)		
Share capital (note 16)	48,318,003	39,877,966
Convertible debenture – equity feature (note 13)	231,318	231,318
Warrants (note 16)	1,057,652	3,340,222
Contributed surplus	7,458,093	6,957,809
Accumulated other comprehensive income (loss)	-	-
Deficit	(59,337,473)	(55,274,309)
Total equity (deficiency)	(2,272,407)	(4,866,994)
Total liabilities and equity (deficiency)	8,435,962	4,968,972

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	
	2013 $	2012 $
Revenue (note 18)	8,000,364	6,469,806
Cost of sales	3,264,786	2,769,996
Gross profit	4,735,578	3,699,810
Other (income) (note 19)	(257,520)	(257,520)
Distribution expenses (note 21)	2,956,446	3,361,205
Administration expenses (note 22)	2,859,122	2,496,769
Research and development expenses (note 23)	2,180,227	2,407,737
Results from operating activities	(3,002,697)	(4,308,381)
Finance (income) (note 24)	(2,221)	(12,788)
Finance costs (note 24)	1,062,223	584,350
Net finance costs	(1,060,002)	(571,562)
Loss for the year before income tax	(4,062,699)	(4,879,943)
Income tax expense (note 25)	465	3,809
Total comprehensive loss for the year	(4,063,164)	(4,883,752)
Earnings (loss) per share		
Basic and diluted loss per share (note 17)	(0.03)	(0.04)

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (DEFICIENCY)

For the years ended December 31, 2013 and 2012

	Share Capital $	Convertible Debenture $	Warrants $	Contributed Surplus $	Foreign Currency Translation Reserve* $	Deficit $	Total Equity (Deficit) $
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)
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
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)
Balance at January 1, 2013	39,877,966	231,318	3,340,222	6,957,809	-	(55,274,309)	(4,866,994)
Loss for the year	-	-	-	-	-	(4,063,164)	(4,063,164)
Total comprehensive loss for the year	-	-	-	-	-	(4,063,164)	(4,063,164)
Contributions by and distributions to owners							
Issue of common shares	157,280	-	-	-	-	-	157,280
Share issue cost	(3,121)	-	-	-	-	-	(3,121)
Share-based payment transactions	-	-	-	358,705	-	-	358,706
Share options exercised	148,007	-	-	(55,107)	-	-	92,900
Warrants exercised	8,137,871	-	(2,085,885)	-	-	-	6,051,986
Warrants expired	-	-	(196,685)	196,685	-	-	-
Total contributions by and distributions to owners	8,440,037	-	(2,282,570)	500,284	-	-	6,657,751
Balance at December 31, 2013	48,318,003	231,318	1,057,652	7,458,093	-	(59,337,473)	(2,272,407)

*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	**2013 $**	**2012 $**
Loss for the year	(4,063,164)	(4,883,752)
Adjustments for:		
Depreciation	87,710	104,215
Depreciation of rental assets	11,735	24,131
Amortization of intangible assets	27,631	138,594
Convertible debenture accretion	657,620	402,275
Payment of debenture interest	(406,836)	(252,720)
Amortization of debenture issue costs	84,135	78,546
Government grant accretion	123,460	70,508
Government grant (note 3g, 23)	(130,801)	(585,705)
Loss on disposal of property and equipment and rental assets	-	61,116
Equity-settled share-based payment transactions	358,706	335,881
Change in inventories	547,199	(605,753)
Change in trade and other receivable	400,326	(541,660)
Change in deposits and prepaid expenses	(46,090)	99,612
Change in trade payables and accrued liabilities	(87,174)	(1,202,968)
Change in provisions	101,976	(934)
Change in unearned revenue	(1,613,411)	820,041
Unrealized foreign exchange	173,240	(191)
Interest expense	10,187	12,300
Interest paid	(10,187)	(12,300)
Income tax expense	465	3,809
Income tax paid	(3,648)	(4,168)
Net cash used in operating activities	(3,776,921)	(5,939,123)
Cash flows from investing activities		
Acquisitions of property and equipment	(38,680)	(8,280)
Disposal (acquisitions) of rental assets	26,991	3,894
Interest income	(2,221)	(1,958)
Interest received	2,221	1,958
Net cash used in investing activities	(11,689)	(4,386)
Cash flows from financing activities		
Share issue (cost) recovery	(3,121)	(375,200)
Proceeds from issue of shares and warrants	157,280	4,349,940
Proceeds from issue of debenture	1,918,813	-
Proceeds from exercise of share options and warrants	6,144,886	1,500
Proceeds from government grant	196,751	879,854
Repayment of loans and borrowings	(82,400)	(86,973)
Payment of finance lease liabilities	(19,963)	(48,715)
Net cash from financing activities	8,312,246	4,720,406
Net decrease in cash and cash equivalents	4,523,636	(1,223,103)
Cash and cash equivalents at January 1	676,246	1,928,065
Effect of exchange rate fluctuations on cash held	(15,079)	(28,716)
Cash and cash equivalents	5,184,803	676,246

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 300E, 1144 – 29th Avenue NE, Calgary, Alberta T2E 7P1.

The consolidated financial statements of the Company as at and for the years ended December 31, 2013 and 2012 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. FLYHT's headquarters are located in Calgary, Canada with sales 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 14, 2014.

(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: judgment 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, 26)
- 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, 2013, the Company had negative working capital of $894,887, a deficit of $59,337,473, a net loss of $4,063,164 and negative cash flow used in operations of $3,776,921.

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. In addition to capital required for regular business activities, the Company will be required to pay debenture interest payable in the fourth quarter of 2014 totaling $3,664,920, unless the holders exercise the conversion option. 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 of businesses, 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, and cash and cash equivalents.

(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 re-measured 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, the Dragon, 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 and leasehold improvements.

As a lessee, FLYHT has an 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

Government grants related to qualifying research expenditures are recognized in profit or loss to match the costs that they are intended to compensate when there is reasonable assurance that they will be received and the Company will comply with the conditions associated with the grant.

(ii) Government loans

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

(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. Fair value less costs to sell is assessed on an asset by asset basis at the point in time when a sale may be probable.

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 and accretion 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, convertible debentures, share options, and warrants.

4. NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

The following standards, interpretations, amendments and improvements to existing standards issued by the IASB or International Financial Reporting Interpretations Committee ("IFRIC") were adopted as of January 1, 2013 without any material impact to FLYHT's Financial Statements: IFRS 7 Financial Instruments: Disclosures, IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosure of interests in Other Entities, IFRS 13 Fair Value Measurement, and IAS 9 Employee Future Benefit, IAS 36 Fair Value Measurement (IAS 36 was early 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, 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. (transitional date still to be determined by the International Accounting Standards Board ("IASB")).

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, 2013).

IAS 39 – Novation of Derivatives and Continuation of Hedge Accounting provides some relief from the discontinuation of hedge accounting when a novation is made as a consequence of laws or regulations or the introduction of laws or regulations, subject to certain criteria (January 1, 2014).

IAS 36 Fair Value Measurement reverses the requirement to disclose the recoverable amount of every cash-generating unit to which significant goodwill or indefinite-lived intangible assets have been allocated, updating the requirement to only apply when an impairment loss has been recognized or reversed (January 1, 2014).

IFRIC 21 Levies requires a liability for a levy be recognized only when the triggering event specified in the legislature occurs, even if an entity has no realistic opportunity to avoid the triggering event (January 1, 2014).

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

5. DETERMINATION OF FAIR VALUES

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods.

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

(b) Loans and borrowings: for measurement purposes, 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 inception of the loan. 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. In respect of the convertible debentures and the debentures, as there has been no material change in the Company's market rate subsequent to the issuance dates, carrying value approximates fair value; and

(c) Trade and other receivables, trade payables and accrued liabilities: carrying value approximates fair value, due to the short-term nature of the instruments.

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, 2013	December 31, 2012
	$	$
Trade receivables	771,244	882,990
Non-trade receivables and accrued receivables	13,182	326,507
Total	784,426	1,209,497

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, 2013	December 31, 2012
	$	$
AFIRS raw materials	806,872	1,157,382
AFIRS finished goods	406,475	249,703
Installations in progress	631,145	984,606
Balance	1,844,492	2,391,691
Less current portion	(1,308,243)	(1,663,918)
Non-current portion	536,249	727,773

In 2013, AFIRS materials and changes in AFIRS units and installations in progress recognized as cost of sales amounted to $1,941,847 (2012: $1,389,017). Included in this amount was a write down of inventories amounting to $251,635 in 2013 (2012: recovery of $13,899) 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

2013	Computers and Software	Equipment	Leasehold improvements	Total
	$	$	$	$
Cost				
Balance at January 1	894,360	230,297	132,851	1,257,508
Additions	4,559	-	34,121	38,680
Disposals	-	-	-	-
Balance at December 31	898,919	230,297	166,972	1,296,188
Accumulated Depreciation				
Balance at January 1	760,111	157,452	99,220	1,016,783
Depreciation for the year	43,694	14,569	29,447	87,710
Disposals	-	-	-	-
Balance at December 31	803,805	172,021	128,667	1,104,493
Carrying Amounts				
At January 1	134,249	72,845	33,631	240,725
At December 31	95,114	58,276	38,305	191,695

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

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, 2013, the net carrying amount of leased property and equipment was $41,619 (2012: $59,456).

As of December 31, 2013, all property and equipment are pledged as security for the bank loan and debentures (note 13).

In the fourth quarter of 2013 FLYHT entered into an agreement to purchase equipment for a security system valued at $27,657 to be installed in the new premises effective March 1, 2014.

10. INTANGIBLE ASSETS

2013	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	-	438,879	438,879
Amortization for the year	-	27,631	27,6314
Balance at December 31	-	466,510	466,510
Carrying amounts			
At January 1	34,992	27,631	62,623
At December 31	34,992	-	34,992

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

The license with Bombardier allows FLYHT access to technical documents. It has an indefinite life, is not amortized, and is tested for impairment annually. The Company presently has dealings with Bombardier and forsees no end to that relationship.

FLYHT provides the contracted customers with UpTime data services. The fair value of the contracts acquired was amortized over the contract period, ending in March 2013.

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, 2013	December 31, 2012
	$	$
Trade payables	2,454,242	2,334,164
Non-refundable customer deposits	620,840	797,070
Compensation and statutory deductions	512,806	316,058
Accrued liabilities	116,608	210,962
Total	3,704,496	3,658,254

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.

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 was recognized on a straight-line basis over the five year term of the agreement and has been fully recognized as of December 31, 2013 (See note 19).

All amounts recorded in unearned revenue are non-refundable.

	2013	2012
	$	$
Balance January 1	2,717,245	1,897,204
AFIRS UpTime sales: shipped, not accepted	1,450,520	3,445,930
AFIRS UpTime usage: prepaid	414,228	376,981
AFIRS UpTime sales: revenue recognized	(2,694,292)	(2,464,784)
AFIRS UpTime usage: revenue recognized	(526,346)	(280,566)
License fees: revenue recognized	(257,520)	(257,520)
Balance December 31	1,103,834	2,717,245

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 (2012: $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, 2013 and 2012, the facility had not been drawn.

Government loans

The IRAP loan was repaid in full in the third quarter of 2013. The loan was non-interest bearing and was repaid annually, based on 1.11% of gross revenues, commencing October 2005 and was unsecured. The current portion was calculated based on the actual gross revenues in the previous 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 has made repayable unsecured contributions to the Company of 30% of the eligible project costs to December 30, 2012 totaling $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, 2013, the Company had received a cumulative total of $1,967,507 (December 31, 2012: $1,770,756).

Convertible debentures

The debenture issued December 23, 2010 has a face value of $3,159,000. The debenture matures on December 23, 2014 and bears 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 an 18% rate. The conversion feature is classified as equity and amounts to $231,318 as at December 31, 2013 (December 31, 2012: $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.

Debentures

In two tranches on April 18 and May 28, 2013, the Company issued an aggregate $2,110,000 of debentures in a debt offering. The debentures mature on June 30, 2016 and bear interest at a rate of 12% per annum on the contributed amounts, which shall be accrued and paid annually in arrears commencing December 1, 2013. Purchasers of debentures received a capital discount premium of 10% on the financing, meaning that for every $1.00 debenture acquired, FLYHT shall owe, on the maturity date, principal equal to $1.10 to the debenture holder. The purchasers of the debentures were also issued one common share of the Corporation for every $1.00 principal amount of debentures acquired pursuant to the offering. A total of 2,110,000 common shares were issued under these tranches. All of the securities issued thereunder were subject to a 4-month hold period. The debentures are not listed on any stock exchange and are not convertible into common shares. The debentures are secured against all personal property of FLYHT, including FLYHT's intellectual property and are subordinated in right of payment to all existing and future secured bank and/or governmental indebtedness of FLYHT and any existing security already registered against FLYHT's assets. The fair value of the debenture was determined at the time of issue as the difference between the principal value of the debentures and the discounted cash flows assuming an 18% rate.

13. LOANS AND BORROWINGS (CONTINUED)

	2013 $	2012 $
IRAP	-	66,690
TPC	12,364	28,074
SADI	818,828	629,419
Debenture payable	2,006,397	-
Convertible debenture payable	2,899,952	2,652,616
Balance December 31	5,737,541	3,376,799
Less current portion	(3,745,513)	(271,832)
Non-current portion	1,992,028	3,104,967

14. OPERATING LEASES

The Company's lease for its operating premises (a) ends effective February 28, 2014. A lease has been entered into for a new operating premises (b), effective March 1, 2014. Operating lease rentals are payable as follows:

	Premises (a) $	Premises (b) $	Total Premises $
2014	81,637	342,292	423,929
2015	-	410,750	410,750
2016	-	410,750	410,750
2017	-	433,419	433,419
2018	-	437,952	437,952
2019	-	437,952	437,952
2020	-	437,952	437,952
2021	-	72,992	72,992
Total	81,637	2,984,059	3,065,696

Operating lease payments made in 2013 totaled $488,060 (2012: $472,142).

15. PROVISIONS

Product warranty - non-current provision	2013 $	2012 $
Balance January 1	46,452	47,027
Provision made during the period	263,979	39,801
Provision used during the period	(162,003)	(40,376)
Balance December 31	148,428	46,452

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, having 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, 2012	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
Issued for cash	2,110,000	157,280
Share issue costs	-	(3,121)
Exercise of employee options	314,000	92,900
Contributed surplus from exercise of employee options	-	55,107
Exercise of warrants	16,007,102	6,051,986
Contributed surplus from exercise of warrants	-	2,085,885
Balance December 31, 2013	158,817,268	48,318,003

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.

In 2012 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.

16. CAPITAL AND OTHER COMPONENTS OF EQUITY (CONTINUED)

In two tranches on April 18 and May 28, 2013, the Company issued debentures in a debt offering (note 13). The purchasers of the debentures were issued one common share of the Corporation for every $1.00 principal amount of debentures acquired pursuant to the offering. A total of 2,110,000 common shares were issued under these tranches. All of the securities issued thereunder were subject to a four-month hold period.

In 2013 a total of 16,007,102 warrants were exercised, each exercisable into one common share for total proceeds of $6,051,986:

(a) 1,071,522 warrants were exercised with an exercise price of $0.20 per share for proceeds of $214,304,

(b) 1,365,500 warrants were exercised with an exercise price of $0.30 per share for proceeds of $409,650, and

(c) 13,570,080 warrants were exercised with an exercise price of $0.40 per share for proceeds of $5,428,032

Also in 2013, a total of 314,000 stock options were exercised for total proceeds of $92,900, with each stock option exercised into one common share:

(d) 224,000 stock options were exercised with an exercise price of $0.25 for proceeds of $56,000, and

(e) 90,000 stock options were exercised with an exercise price of $0.41 per share for proceeds of $36,900

Stock option plan

The Company grants stock options to its directors, officers, employees and consultants. In the first quarter of 2013 the Company granted 487,500 stock options to two consultants under the stock option plan. The stock options expire December 31, 2016, and have an exercise price of $0.25 per share. Of the options granted, 87,500 were issued to a consultant and vested immediately and 400,000 were issued to an investor relations consultant and vested 25% per quarter March 31, June 30, September 30, and December 31, 2013. The fair value of the 87,500 options granted was determined using the Black-Scholes option pricing model. The fair value of the 400,000 options granted was determined based on the estimated fair value of services to be received.

In the second quarter of 2013 the Company granted 2,211,500 stock options to employees and directors under the stock option plan. The stock options vest immediately, expire December 31, 2016, and have an exercise price of $0.25 per share. The options were granted at an exercise price not less than fair market value of the stock on the date of issuance.

In the third quarter of 2013 the Company granted 100,000 stock options to an employee under the stock option plan. The stock options vest immediately, expire December 31, 2016, and have an exercise price of $0.25 per share. The options were granted at an exercise price not less than fair market value of the stock on the date of issuance.

In the fourth quarter the Company granted 800,000 options effective January 1, 2014, comprised of 400,000 options to each of two IR consultants (subject to the approval of the TSX Venture Exchange, received on Jan 2, and Feb 25, 2014). These options were recorded as outstanding as of December 31, 2013. An aggregate 200,000 options (100,000 per IR consultant) will vest on March 31, June 30, September 30 and December 31, 2014. The options have an exercise price of $0.45 and expire December 31, 2016.

The Company has a policy of reserving up to 10% of the outstanding common shares for issuance to eligible participants. As at December 31, 2013, there were 15,881,726 (2012: 14,038,617) common shares reserved for this purpose.

All outstanding options issued to date vested immediately at the grant date with the exception of:

(a) 400,000 options granted to an investor relations ("IR") consultant effective September 20, 2012 and 400,000 granted to an investor relations consultant effective January 1, 2013 which had vested by December 31, 2013, and

(b) 1,200,000 options granted effective January 1, 2014, comprised of 400,000 options to each of three IR consultants. Vesting provisions provide that 25% of the total stock options issued under these three agreements vest to each of the IR consultants per quarter over the first one-year period.

16. CAPITAL AND OTHER COMPONENTS OF EQUITY (CONTINUED)

There remain 800,000 unvested options as at December 31, 2013 (2012: 1,375,000). A summary of the Company's outstanding and exercisable stock options as at December 31, 2013 and 2012 and changes during these years is presented below.

	2013		2012	
	Number of options	Weighted average exercise price $	Number of options	Weighted average exercise price $
Outstanding, January 1	6,270,500	0.26	4,485,991	0.28
Options granted	3,599,000	0.29	2,607,500	0.25
Options exercised	(314,000)	0.30	(6,000)	0.25
Options expired	(2,083,000)	0.28	(816,991)	0.31
Outstanding, December 31	7,472,500	0.27	6,270,500	0.26
Exercisable, December 31	6,672,500	0.25	4,895,500	0.28

Weighted average life remaining for the options outstanding and exercisable is 2.2 years. The exercise prices for options outstanding at December 31, 2013 were as follows:

	All options		Exercisable options	
Exercise price:	Number	Weighted average remaining contractual life (years)	Number	Weighted average remaining contractual life (years)
$0.25	1,752,500	1.0	1,752,500	1.0
$0.25	2,593,000	2.0	2,593,000	2.0
$0.25	2,327,000	3.0	2,327,000	3.0
$0.45	800,000	3.0	-	-
Total	7,472,500	2.2	6,672,500	2.1

The weighted average fair value of the options granted during the year that were valued using the Black-Scholes option pricing model was $0.12 (2012: $0.14), estimated based on the following assumptions. The fair value of the options granted and valued using the Black-Scholes option pricing model were valued with the following weighted average assumptions:

	2013	2012
Risk-free interest rate	1.24%	1.38%
Expected life (years)	3.65	3.60
Volatility in the price of the Company's common shares	99%	99%
Dividend yield rate	0.00%	0.00%

Warrants

	Number of warrants	Weighted average exercise price $	Value $
Outstanding January 1, 2012	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
Warrants exercised	(16,007,102)	0.38	(2,085,885)
Warrants expired	(1,415,000)	0.40	(196,685)
Outstanding December 31, 2013	14,711,867	0.23	1,057,652

16. CAPITAL AND OTHER COMPONENTS OF EQUITY (CONTINUED)

The weighted average fair value of the agent warrants granted in 2012 was $0.07. The fair value of the warrants granted was estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

	2013	2012
Risk-free interest rate	-	1.05%
Expected life (years)	-	2.00
Volatility in the price of the Company's common shares	-	76%
Dividend yield rate	-	0.00%

17. EARNINGS PER SHARE

Basic earnings per share

The calculation of basic and diluted earnings per share for the year ended December 31, 2013 was based on a weighted average number of common shares outstanding of 142,691,525 (2012: 129,567,629). The calculation of diluted earnings per share did not include stock options of 7,872,500 (2012: 6,270,500), warrants of 14,711,867 (2012: 32,133,969) and convertible debentures of 7,897,500 because they would be anti-dilutive.

18. REVENUE

	2013 $	2012 $
AFIRS Uptime sales	2,707,838	2,464,784
AFIRS Uptime usage	3,624,719	3,091,626
Parts sales	655,561	202,420
Services	1,012,245	710,976
Total	8,000,364	6,469,806

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 was 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	
	2013	2012
	$	$
North America	3,853,788	3,522,317
South / Central America	460,184	472,850
Africa / Middle East	1,391,446	1,729,862
Europe	549,718	150,247
Australasia	697,249	520,843
Asia	1,047,979	73,687
Total	8,000,364	6,469,806

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

Major customers

Revenues from the three largest customers represent approximately 31.1% of the Company's total revenues for the year ended December 31, 2013 (2012: 23.7%).

21. DISTRIBUTION EXPENSES

	For the year ended December 31	
	2013	2012
	$	$
Salaries and benefits	1,506,626	1,829,053
Stock based compensation	85,071	95,458
Contract labour	275,059	559,096
Office	366,439	345,648
Travel	403,319	315,797
Equipment & maintenance	25,413	31,820
Depreciation	46,129	52,956
Marketing	41,441	61,773
Other	206,949	69,604
Total	2,956,446	3,361,205

22. ADMINISTRATION EXPENSES

	For the year ended December 31	
	2013	2012
	$	$
Salaries and benefits	1,498,854	1,253,401
Stock based compensation	260,091	227,808
Contract labour	141,271	112,366
Office	305,104	324,465
Legal fees	36,405	142,378
Audit and accounting	122,625	104,855
Investor relations	243,975	93,709
Brokerage, stock exchange, and transfer agent fees	27,377	26,961
Travel	96,585	106,586
Equipment and maintenance	55,462	57,844
Depreciation	23,920	28,874
Other	47,453	17,522
Total	2,859,122	2,496,769

23. RESEARCH AND DEVELOPMENT EXPENSES

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

In 2013, FLYHT received payment for one claim totaling $196,751 (2012: $879,854) 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 $65,950 and a grant of $130,801. 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	
	2013	2012
	$	$
Salaries and benefits	1,536,904	1,544,718
Stock based compensation	13,542	12,615
Contract labour	533,107	1,265,032
Office	188,579	303,740
Travel	48,734	60,419
Equipment and maintenance	33,154	48,704
Components	264,587	63,267
Government grants	(130,801)	(585,705)
SRED tax credit	(326,195)	(327,438)
Depreciation	17,661	22,385
Other	955	-
Total	2,180,227	2,407,737

24. FINANCE INCOME AND FINANCE COSTS

Recognized in profit or loss:

	For the year ended December 31	
	2013 $	2012 $
Interest income on bank deposits	2,221	1,958
Net foreign exchange gain	-	10,830
Finance income	2,221	12,788
Bank service charges	21,388	20,721
Interest expense	10,187	12,300
Government grant interest expense	123,460	70,508
Debenture interest expense and accretion	657,620	402,275
Debenture issuance cost amortization	84,136	78,546
Net foreign exchange loss	165,432	-
Finance costs	1,062,223	584,350

25. INCOME TAX EXPENSE

	2013 $	2012 $
Current income tax expense	465	3,809
Deferred income tax expense	-	-
	465	3,809

Unrecognized deferred tax assets

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

	2013	2012
Capital assets	156,933	191,859
Intangibles	113,870	113,958
Inventory	405	4,327
Non-capital loss carry-forwards	9,599,862	9,122,110
Share issue costs	90,225	179,014
Scientific research and experimental development expenditures	6,203,715	6,286,853
	16,165,101	15,898,121

25. INCOME TAX EXPENSE (CONTINUED)

The Company has non-capital losses for income tax purposes of approximately $36,067,569 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 $
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	6,596,636
2031	4,351,802
2032	2,313,255
2033	997,514
Total	38,067,569

Reconciliation of effective tax rate

	2013 $	2012 $
Loss for the period	(4,063,164)	(4,883,752)
Total income tax expense	465	3,809
Loss excluding income tax	(4,062,699)	(4,879,943)
Tax Rate	25.0%	25.0%
Expected income tax recovery	(1,015,675)	(1,219,986)
Change in tax rate and other	486,748	(374,542)
Non-deductible expenses	171,827	7,484
Stock based compensation	89,676	83,970
Change in unrecognized temporary differences	267,889	1,506,883
	465	3,809

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 11.7% (2012: 9.0%) of the Company's 2013 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, 2013	0-30 days $	31-60 days $	61-90 days $	91+ days $	Total $
Accounts receivable	404,658	129,737	175,233	272,805	982,433
Impairment	(4,705)	(7,058)	(30,216)	(156,028)	(198,007)
Net receivable	399,953	122,679	145,017	116,777	784,426

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

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, 2013 and 2012 was:

	2013 $	2012 $
Balance, January 1	12,994	102,079
Provision	198,007	4,763
Amounts written off	(12,645)	(69,268)
Impairments recovered	(349)	(24,580)
Balance, December 31	198,007	12,994

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, 2013, 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, 2013	< 2 months $	2-12 months $	1-2 years $	2-5 years $	> 5 years $	Total $
Accounts payable	581,557	18,726	-	-	-	600,283
Accounts payable – SNC (note 27a)	1,921,384	-	-	-	-	1,921,384
Compensation and statutory deductions	296,223	216,583	-	-	-	512,806
Finance lease liabilities	4,059	9,970	-	-	-	14,029
Accrued liabilities	40,678	75,930	-	-	-	116,608
Loans and borrowings	-	3,751,695	344,026	2,781,399	1,507,480	8,384,600
Total	2,843,901	4,072,904	344,026	2,781,399	1,507,480	11,549,710

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

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 $76,314 (2012: $62,317) and a strengthening of the Canadian dollar would decrease net earnings by approximately $76,314 (2012: $62,317).

The Company mitigates its cash flow exposures by the international nature of the business where a 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, 2013, negative working capital denominated in U.S. dollars was approximately $1,180,745 (2012: negative $1,367,243). As a result a 1% weakening of the Canadian dollar would decrease net earnings by approximately $11,807 (2012: $13,672) and a strengthening of the Canadian dollar would increase net earnings by approximately $11,807 (2012: $13,672).

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 and GBP, 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, 2013 and 2012 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 objective 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

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 $1,921,384, 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 (note 11), management does not expect the outcome to have a material effect on the Company's financial position.

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.

28. RELATED PARTIES (CONTINUED)

	Included in contract labour:		Included in accounts payable and accrued liabilities:	
	For the year ended December 31		December 31	
	2013 $	2012 $	2013 $	2012 $
(a)	-	89,875	-	14,915
(b)	-	17,984	-	-
Total	-	107,859	-	14,915

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:

	2013 $	2012 $
Salary	736,500	815,596
Director fees	109,359	84,023
Variable compensation	192,264	169,218
Share-based payments	94,550	195,393
Short-term employee benefits	57,254	89,935
Total	1,189,927	1,354,165

Directors of the Company control 4.1% (2012: 4.7%) of the voting shares of the Company

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%

29. SUBSEQUENT EVENT

As of April 14, 2014, the Company issued a total of 4,228,280 shares due to warrant and option exercises for total proceeds of $1,333,387, including:

a) 1,971,500 warrants exercised at $0.30 for proceeds of $591,450

b) 1,405,780 warrants exercised at $0.40 for proceeds of $562,312

c) 718,500 options exercised at $0.25 for proceeds of $179,625

CORPORATE INFORMATION

REGISTRAR AND TRANSFER AGENT

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SHARE LISTING

Shares are traded on the TSX Venture Exchange
Ticker Symbol: FLY

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Bill Tempany	Chief Executive Officer, FLYHT Aerospace Solutions Ltd.
Mike Brown	Partner, Geselbracht Brown
Paul Takalo, CA	Vice-President, Standen's Limited
Jacques Kavafian	Director
Jack Olcott	President, General Aviation Company
Richard Hayden	Director

OFFICERS

Bill Tempany	Chief Executive Officer
Matt Bradley	President
Thomas French, CGA	Chief Financial Officer
Derek Graham	Chief Technical Officer
Jeff Brunner	VP Certification Engineering and China Operations

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