2016

FLYHT AEROSPACE SOLUTIONS LTD.

ANNUAL REPORT

FLYHT

INSIGHT • ACTION • CONTROL

TABLE OF CONTENTS

"FLYHT LOGGED RECORD REVENUES IN 2016. WE INCREASED OUR REVENUES BY 37% OVER 2015."

COMMONLY USED FINANCIAL TERMS & AVIATION ACRONYMS

ACARS: Aircraft Communications Addressing and Reporting System

ADCC: Aircraft Data Communication Corporation

AFIRS™: Automated Flight Information Reporting System

ANAC: National Civil Aviation Agency of Brazil

CAAC: Civil Aviation Administration of China

COMAC: Commercial Aircraft Corporation of China

DGAC: Direccion General de Aeronautica Civil (Mexico's certification organization)

EASA: European Aviation Safety Agency

EBITDA: Earnings before interest, income tax, depreciation and amortization

ECAA: Egyptian Civil Aviation Authority

FAA: Federal Aviation Administration

GAAP: Generally Accepted Accounting Principles

GAMA: General Aviation Manufacturers Association

GAMECO: Guangzhou Aircraft Maintenance Engineering Company Limited

IATA: International Air Transport Association

ICAO: International Civil Aviation Organization

ICE: Iridium Compatible Equipment

IFRS: International Financial Reporting Standards

ITU: International Telecommunications Union

MD&A: Management Discussion and Analysis

NCAA: Nigerian Civil Aviation Authority

NTSB: National Transportation Safety Board

OEM: Original Equipment Manufacturer

QTD: Quarter-to-date

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

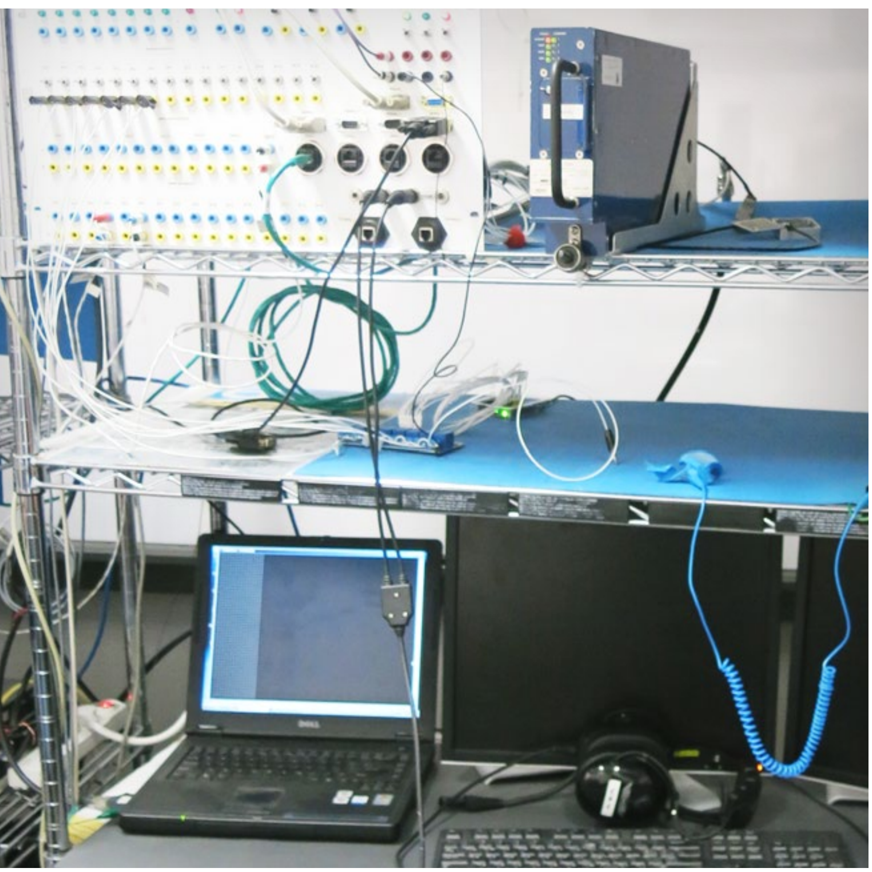
WINN: Western Innovation Initiative

YTD: Year-to-date

INVESTMENT HIGHLIGHTS

- Commercialized, unique, real-time aircraft intelligence and cockpit communications satellite technology for the aerospace industry
- Enhances profitability, saves time and drives operational efficiencies
- Facilitates on-demand streaming of flight data recorder
- Supplemental Type Certificates covering 95% of transport category aircraft, representing a high barrier to entry
- Multiple revenue streams – hardware sales, recurring revenue and OEM agreements
- Robust recurring revenue model - 70-85% gross margin
- Escalating order shipments to China in response to regulatory changes
- Significant opportunity to upsell recurring revenue services on installed units
- Well positioned to support the aviation industry as it advances to meet regulations, including mandates on Autonomous Distress Tracking and Timely Recovery of Flight Data
- Significant international market opportunities for growth
- AFIRS™ has registered over 2.5 million flight hours
- Shipped and/or installed over 1,600 AFIRS units worldwide


FLYHT
TM
INSIGHT • ACTION • CONTROL



2016 FLYHT PLAN REVIEW & ACHIEVEMENTS

Increase revenue +30% over 2015

FLYHT achieved record revenue of $14.3 million in 2016, an increase of 37% over 2015. If the $3.3 million from the one-time sale of the intellectual property license is included, the annual income was $17.6 million. In addition to increased revenue, FLYHT achieved profitability in the second, third and fourth quarters of 2016 and for the year; financial milestones for the Company.

Complete development and roll-out of cloud-based UpTime user interface

FLYHT launched UpTime™ Cloud to airline customers in 2016. The first users were Chinese and Canadian airline customers. UpTime Cloud is a significant enhancement to the interface and functionality of the legacy platform.

Establish a 24x7 service call center

FLYHT now offers 24x7 customer support. Around the clock support is key to provide increased service to the Company's global customer base. This support lays the foundation to expand international business opportunities.

Close a new OEM opportunity

The Company dedicated significant resources to the OEM effort and will continue to target this goal in the 2017 plan as it remains a high priority.

Deploy our "Adopt Excellence" strategy: focused efforts to achieve profitability and to increase shareholder value

The FLYHT team embraced "Adopt Excellence" to empower employees, control costs and improve processes within the Company. The Company has made great progress during 2016 and will continue this high-level strategy, updated for 2017.

In China: continued vigilance to meet satellite communications mandate in 2017; complete an AFIRS repair depot

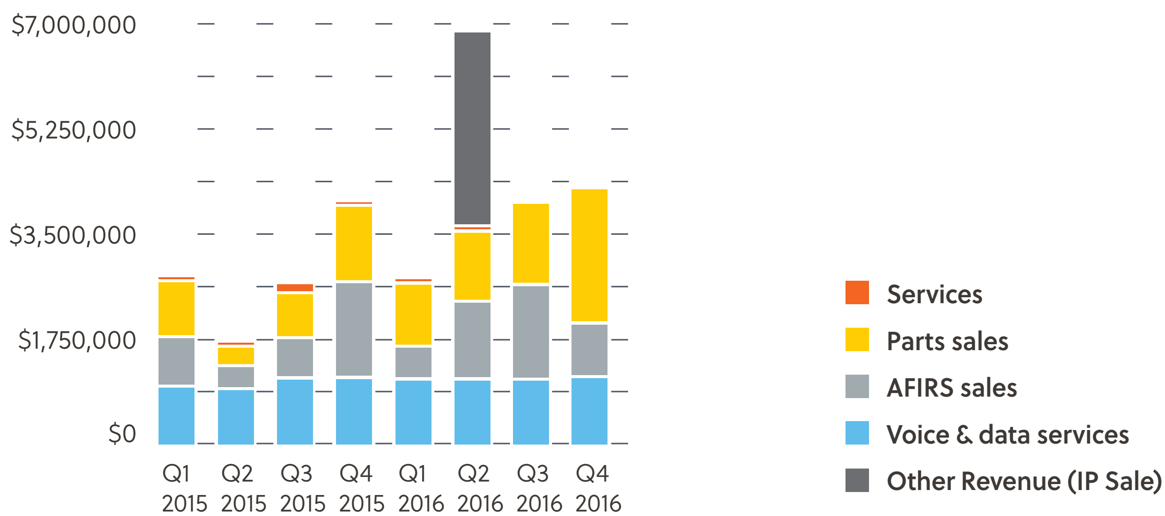
FLYHT captured eight new operators for Satcom in China in 2016 and signed a launch customer for recurring data service products.

In November, FLYHT announced a contract with Guangzhou Aircraft Maintenance Engineering Company Limited (GAMECO) to provide repair services to FLYHT's customers in China. GAMECO specializes in aircraft and airborne component maintenance, repair and overhaul (MRO).

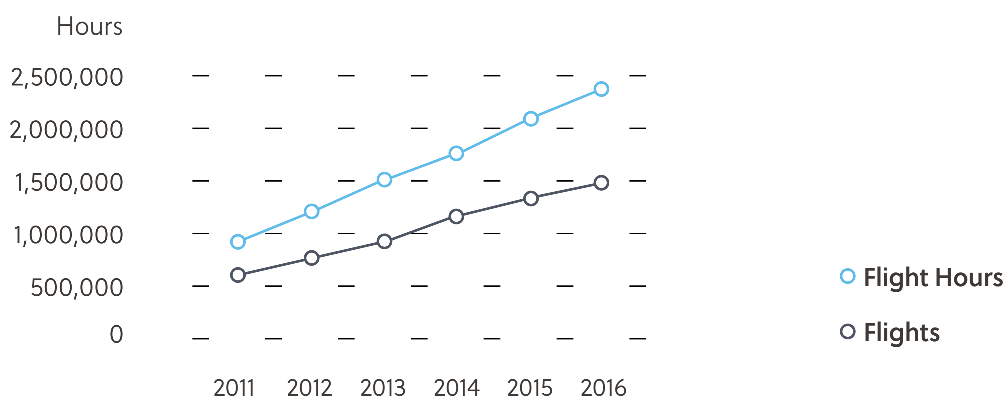
2017 FLYHT PLAN:

- Grow overall and monthly recurring revenue by at least 25%
- Continue success in China – secure a major services deal
- Win new contracts in South East Asia, Europe and the Middle East
- Secure business with a new OEM position
- Remain EBITDA Positive
- Grow public value through strategic business initiatives

REVENUE SOURCES



FLIGHT HOURS & FLIGHTS



NORTH AMERICA

62.9%

$9,007,719

EUROPE

2.4%

$349,684

ASIA

16.2%

$2,322,051

CENTRAL & SOUTH AMERICA

4.6%

$658,319

AFRICA & MIDDLE EAST

8.9%

$1,273,655

AUSTRALASIA

5.0%

$719,763

TOTAL 2016 REVENUE:

$14,331,191

FLYHT SUCCESS STORIES

WITH OVER 70 CUSTOMERS AROUND THE WORLD, FLYHT RECOGNIZES THAT NO TWO AIRLINES ARE THE SAME AND CREATES CUSTOMIZED SOLUTIONS TO HELP IMPROVE AND ENHANCE AIRLINE OPERATIONS. THE CASE STUDIES FROM AIRLINE CUSTOMERS, FEATURED BELOW, DEMONSTRATE HOW THE COMPANY HAS HELPED CUSTOMERS ACHIEVE RESULTS.

HIGH ENGINE VIBRATION

AFIRS provided monetary and safety benefits to an operator who uses the technology to monitor its aircraft engines. AFIRS alerted the airline of a high engine vibration and the customer took the aircraft out of service to diagnose and address the issue before it became a serious problem. The replacement cost for the engine would have been $5.2 million; instead the repair cost based on AFIRS-driven data was $780,000.

UNSTABLE APPROACH

An operator of CRJ900 aircraft requested that FLYHT implement a real-time program specifically designed to improve the safety of its operation. FLYHT created customized reports using AFIRS and UpTime that not only monitored aircraft operation for unstable approaches, but delivered the reports in real time to the flight safety department for analysis and trending.

CHINA MANDATE

Regulations in China mandate a SATCOM voice communications connection between aircraft and the airline operations centre. FLYHT is the first company to receive an Iridium SATCOM licence and AFIRS is the ideal solution with which to comply with the mandate. Our customers also derive value-added benefits such as global flight tracking, aircraft health monitoring and triggered flight data streaming.

“FLYHT HAD A GREAT YEAR AND MADE SIGNIFICANT PROGRESS IN 2016. WE PRODUCED SEVERAL BESTS AND FIRSTS”!

ENHANCED FLIGHT TRACKING

Limited ground infrastructure makes it difficult for one of FLYHT’s customers to efficiently facilitate the transfer of passengers to and from the airport. FLYHT created a geo-fence capability in its software to alert the airline when the aircraft entered or exited specific boundaries. This kept all parties advised, in real time, on the progress of each flight, improved customer satisfaction and reduced costs for the airline associated with poor communication and logistical support issues.

AIRCRAFT MONITORING SYSTEMS

One of FLYHT’s long-time customers realized the value of AFIRS data when they were faced with legal action from a passenger claiming to be injured from a hard landing. AFIRS monitors onboard sensors and a review of the reports verified that in fact no thresholds had been exceeded on the flight. FLYHT saved the airline litigation costs while also improving its ability to monitor for maintenance and increase operational efficiency.

ENGINE PERFORMANCE

One of FLYHT’s customers entered a lease agreement that required them to demonstrate 10% of all takeoffs would be conducted at reduced-thrust to decrease excessive wear on the engines. Failure to do so would result in financial penalties. AFIRS data provided the customer with reports to demonstrate they were meeting their lease obligations.

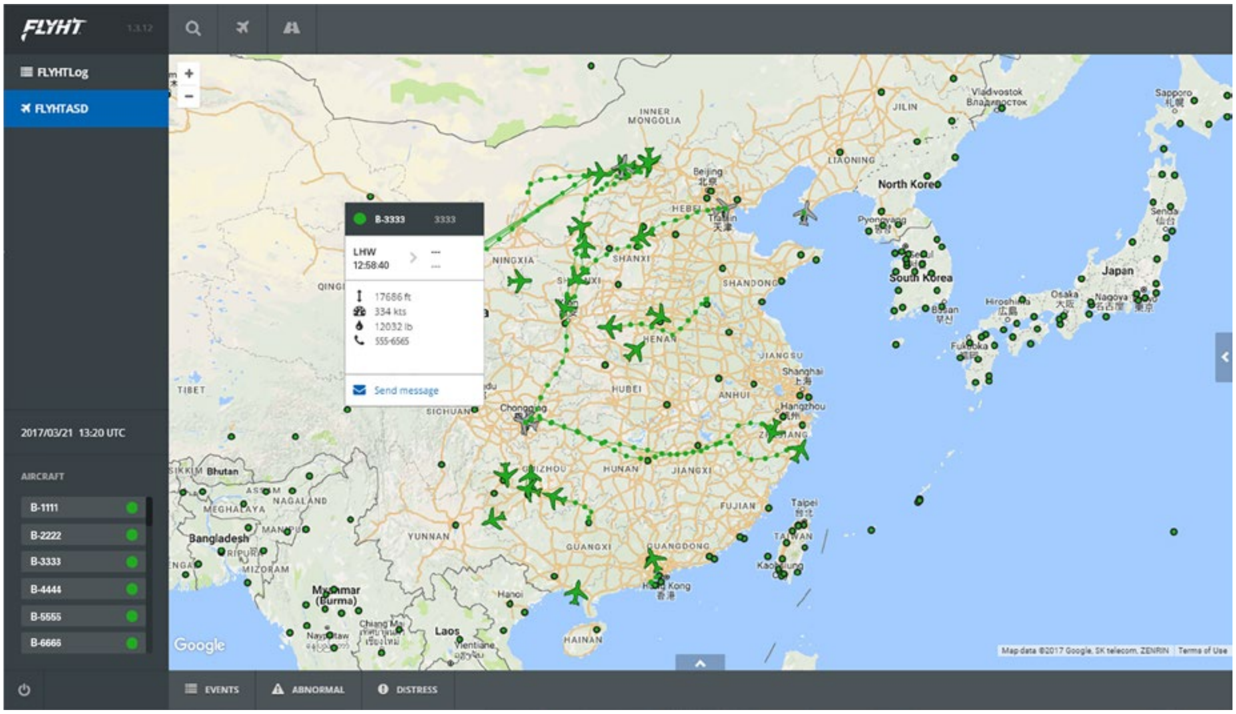
UPTIME CLOUD

THE VALUE PROPOSITION OF FLYHT'S TECHNOLOGY IS THE REAL-TIME INFORMATION IT PROVIDES TO ITS CUSTOMERS AND HOW THEY CAN CUSTOMIZE ALERTS AND NOTIFICATIONS TO STREAMLINE THEIR OPERATIONS.

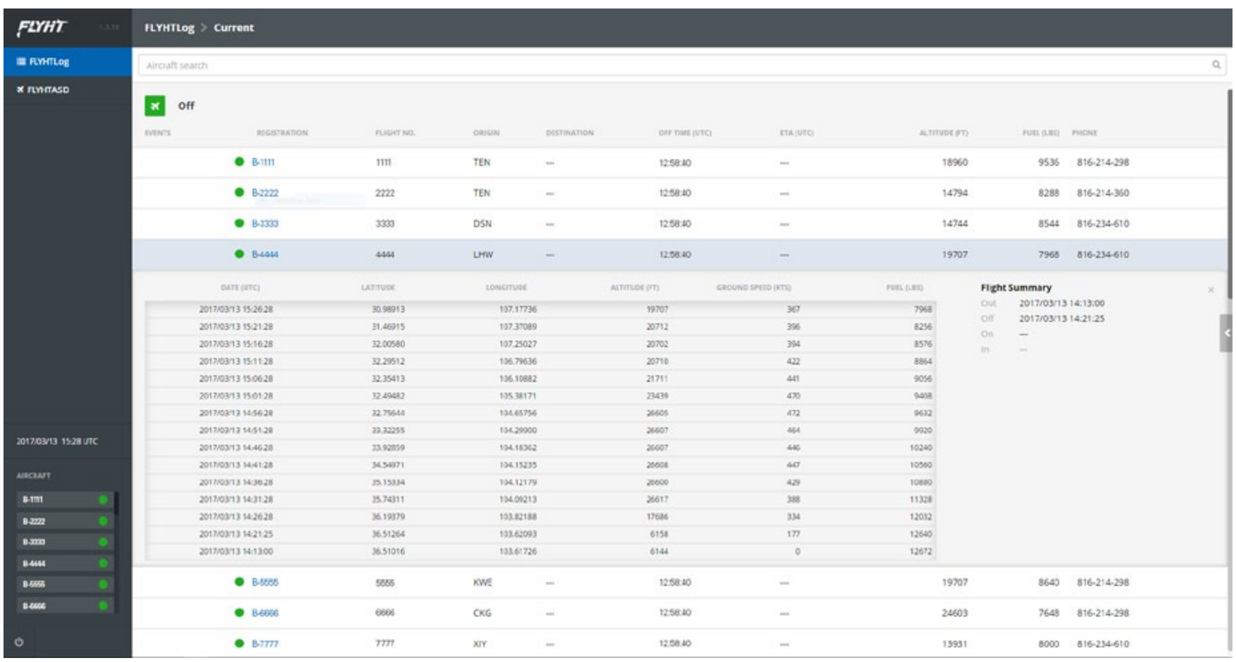
The goal of the new cloud-based solution is to allow airlines to "manage by exception", focusing on the operational problems that cause delays, cancellations and overall flight disruptions. FLYHT invested in the launch of UpTime Cloud in 2016 to enhance these capabilities in the next generation program.

UpTime Cloud is a web-based portal where customers access aircraft information and data. UpTime Cloud improves customers' interaction with key programs while providing enhancements to security and infrastructure. The program allows airlines to send and receive text messages, while allowing them to configure alerts and notifications. Airlines conduct remote systems diagnostics by accessing aircraft data in real time and defining the content and amount of specific data they receive. UpTime Cloud expands FLYHT's technology offering to our customers by delivering a configurable flight tracking solution combined with business intelligence applications and data analytics.

One example of the extended benefits provided by UpTime Cloud is FLYHTHealth™, developed for airlines' maintenance staff to query the aircraft engine, while in flight, to take corrective maintenance action to reduce or eliminate all maintenance-related delays and flight cancellations. FLYHTHealth integrates remote detection, reporting, and analysis of airplane data to determine the status of an aircraft's current and future serviceability. By automating and enhancing the real-time and long-term monitoring of airplane data, FLYHTHealth enables proactive management of maintenance crews and budget. FLYHTHealth provides economic benefit to the airline operator by applying intelligent analysis of aircraft data currently generated by existing aircraft systems. Through the UpTime Cloud portal, email or text message, FLYHTHealth notifies an airline when an issue is detected. The airline can then access the data, identify the problem and prepare for repair before the aircraft lands. This speeds up the process of repair and reduces the impact of unscheduled maintenance while saving the airline money.



FLYHTASD™: Airlines can monitor their aircraft on the map and send text messages through the ASD



FLYHTLog: Collection of flight and block times provides accurate information to maximize maintenance intervals and the utilization of life-limited parts.

2016 MAJOR ANNOUNCEMENTS

JANUARY 11

FLYHT received the CAN-TSO-C159b for the AFIRS 228S from Transport Canada which represents approval for an additional level of airworthiness standards. The AFIRS 228S Iridium SATCOM system is currently approved, with STCs on numerous aircraft types, in all major jurisdictions and provides aircraft crew with voice and data services for Air Traffic Control (ATC), Aeronautical Operational Control (AOC) and Air-to-Air Communication (AAC) using Iridium's global satellite network. The system also provides Aircraft Communications Addressing and Reporting System (ACARS) over Iridium messaging capability.

JANUARY 19

FLYHT achieved a record milestone of two million flight hours that AFIRS has flown on direct sale customers' aircraft.

FEBRUARY 11

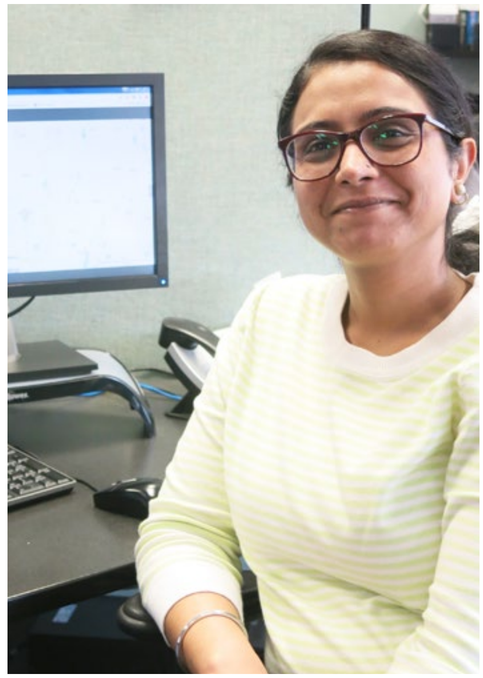
FLYHT announced a strategic partnership with Flight Data Services Ltd. (FDS), a global leader in flight data monitoring (FDM), to offer a complete flight data acquisition and analysis solution to the aviation industry.

"FLYHT's AFIRS data acquisition system ideally complements our POLARIS data analysis platform, and through this collaboration our two companies can offer a streamlined service right at the forefront of technical innovation," said Dave Jesse, CEO, FDS.

MARCH 29

FLYHT announced the signing of six new airlines over the previous six months (four new contracts in 2016 including two in China) with an aggregate revenue for all six contracts of approximately $615,000 USD.

"We are making progress worldwide with airlines and China continues to be a growing market for FLYHT," remarked VP Sales and Marketing David Perez. **"To improve customer relations and sales opportunities in China, FLYHT has hired a new account manager stationed in Shanghai. The new position provides local support for airlines in the region which allows the VP, China Sales to focus full-time on sales efforts."**



“WE ARE MAKING PROGRESS WORLDWIDE WITH AIRLINES AND CHINA CONTINUES TO BE A GROWING MARKET FOR FLYHT.”

APRIL 25

FLYHT announced the receipt of the first of two milestone payments of the aggregate USD $2.5 million license fee due from a technology company. FLYHT also received an order from an OEM partner for USD $1.2 million parts with related license fees and signed its third Chinese airline customer of the year to contract with an aggregate revenue of approximately USD $1 million.

MAY 12

FLYHT announced it closed a private placement offering. 33,910,081 units were issued at a price of $0.15 per unit, for aggregate consideration of $5,086,512.

MAY 18

FLYHT received STCs for the AFIRS 228 on multiple aircraft types including the ATR 42-500 "600 version" and ATR 72-212A "600 version" from the EASA, the Boeing B757-200 aircraft from the FAA and the TCCA STC for the Bombardier DHC 8 – 100, 200, 300 series aircraft.

JUNE 1

FLYHT announced the appointment of Matieu Plamondon, Vice President Operations and Customer Fulfillment and David Perez, Vice President Sales and Marketing as officers of the Company.

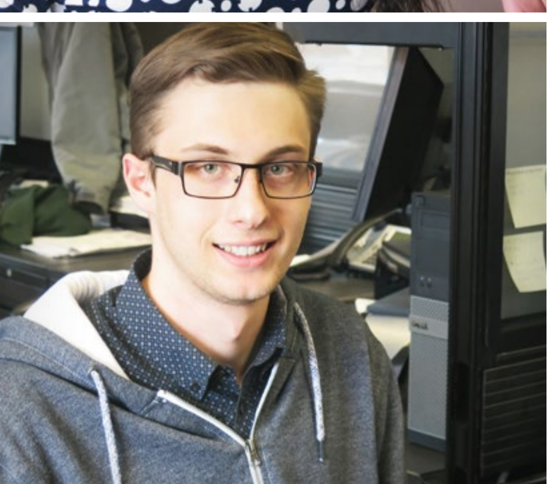
In the second quarter, FLYHT also received the CAAC STC for the Boeing 767 200 and 300 series.

JUNE 1

FLYHT's outstanding debentures matured and were repaid in full for $2.5 million.

JULY 6

FLYHT signed five new contracts for voice and data services in the second quarter of 2016 with a value of USD $2.3 million over the term of the agreements.



AUGUST 15

FLYHT launched real-time data services in the People's Republic of China.

"FLYHT is pleased to provide data services for customers in China to enable cost savings and improved operational efficiencies," remarked Michael Fang, FLYHT's Vice President of China Sales. **"By receiving real-time data, airlines can track their aircraft and AFIRS will alert the airline to any issues which allows them to be proactive with their maintenance and operations. We believe that signing this airline may open FLYHT up to new possibilities in China as other airlines see the value that real-time data can provide."**

OCTOBER 3

FLYHT entered an agreement with an Information Technology Company that implements data solutions for Chinese commercial aviation operators in the People's Republic of China for the sale of AFIRS 228S. The initial contract for hardware is valued at approximately $4.26 million USD.

OCTOBER 5

FLYHT announced updates to customer and parts sales activity in the third quarter of 2016 including parts with related license fees orders from an existing OEM partner for USD $1.0 million. Additionally, FLYHT signed one new hardware agreement for AFIRS 228 in China and one new operator in Africa for voice and data services.

FLYHT received new STCs for the AFIRS 228 from the FAA including the ATR 42-300 and the ATR 72-100/200 aircraft.

NOVEMBER 9

FLYHT was awarded a $2.35 million repayable government contribution from the Western Innovation Initiative (WINN) by the Western Economic Diversification Canada.

"It's really exciting to have been selected for WINN funding which greatly contributes to the work we do in the aerospace sector in Alberta," remarked FLYHT's program manager, Flint Walters. **"With these funds, we plan to upgrade the Automated Flight Information Reporting System (AFIRS) and commercialize the Company's cloud-based UpTime software which includes functionality to better support new and current customers."**

"FLYHT POSTED A PROFIT FOR THE SECOND, THIRD AND FOURTH QUARTERS OF 2016 AND AN OVERALL EBITDA GAIN FOR 2016 OF OVER $2.5 MILLION."

NOVEMBER 14

FLYHT announced an update to the October 3, 2016 announcement. The contract was increased to approximately USD $6.94 million.

NOVEMBER 28

FLYHT announced a contract with Guangzhou Aircraft Maintenance Engineering Company Limited (GAMECO) to provide repair services to FLYHT's customers in the People's Republic of China. GAMECO specializes in aircraft and airborne component maintenance, repair and overhaul.

DECEMBER 1

FLYHT was granted CAAC Part-145 approval by the Civil Aviation Administration of China (CAAC). The approval took almost two years to achieve and allows FLYHT to repair AFIRS units and return them to customers in China with an AAC-038 release certificate.

DECEMBER 2016

FLYHT's outstanding redeemable debentures matured and were repaid in full for $3.1 million.

FLYHT was awarded an STC from the CAAC in December that allows for further installation on the CRJ 100, 200, 440, 700 and 900 aircraft.

FLYHT announced updates from the fourth quarter including receipt of orders from an existing OEM partner for approximately USD $1.8 million parts with related license fees.

FLYHT signed two new airline customers in China for AFIRS 228 for a total value of approximately USD $709,000.

Two existing customers added AFIRS 228 units with voice and data services for revenue value of approximately USD $811,000.

TO OUR SHAREHOLDERS

FLYHT HAD A GREAT YEAR AND MADE SIGNIFICANT PROGRESS IN 2016. WE PRODUCED SEVERAL "BESTS" AND "FIRSTS"!

- **Delivered our best revenue year ever: for the first time, FLYHT strung together three consecutive money-making quarters for our first ever EBITDA positive year!**
- **Achieved our best revenue quarter ever: Q4 2016.**
- **Beat our AFIRS™ unit contract sales budget by 35% - aided by a very strong China sales market.**
- **Grew Parts sales nearly 100% over 2015.**
- **Rolled out a new cloud-based version of UpTime™ Cloud and launched recurring data services in China: key to our continued growth.**
- **Successfully executed our 2016 goals and set aggressive goals for 2017.**

The 2016 year ended with a record revenue quarter of $4.1 million, slightly higher than the previous record quarter (Q3 2016), and 10% higher than Q4 of 2015. This placed revenue for the year at $14.3 million, or 37% higher than 2015, previously our best revenue year. When the one-time Intellectual Property (IP) license sale income of $3.3 million is included, overall 2016 annual income was $17.6 million. More importantly, FLYHT posted a profit for the second, third and fourth quarters of 2016 and an overall EBITDA * gain for 2016 of over $2.5 million.

Dominating the year's revenue is $5.8 million of Parts sales, which includes our license fee receipts from our original equipment manufacturer (OEM) agreement for sales onto the Airbus A320 and A330 platforms. Revenue from this channel, along with the IP license sale and the private placement equity raise of $5.1 million in May, enabled FLYHT to re-pay $5.4 million in matured debentures in 2016 with no impact to business.

Revenue in 2016 from our AFIRS sales grew by 17% over 2015, reaching nearly $4 million. Our Voice and Data Services component grew more slowly, at 10% over 2015. We added significantly more recurring data business than is reflected in this 10% growth number, but we encountered headwinds in our established base, in several cases due to impacts to our customers from weakness in the oil and gas market. We have set an aggressive goal for growth in 2017 in this area of revenue.

Each year we create our "FLYHT Plan", FLYHT's annual goals. In 2016, we achieved most of our goals.

- FLYHT logged record revenues in 2016. We increased our revenues by 37% over 2015, beating the 30% target that we had set for the year.
- We deployed our "Adopt Excellence" high level strategy, which is our roadmap to profitability and stakeholder value. We use this plan to communicate priorities and vision within the Company.
  - o We strengthened the balance sheet, which we accomplished by re-paying $5.4 million in matured debentures in the year and by securing a repayable government contribution for $2.35 million. Our resulting debt is low.
  - o Other particularly successful elements of "Adopt Excellence" in 2016 are the expansion of recurring data services into China and the controlling of costs and improvement of efficiencies within the Company. While we did reorganize and change some of the players within FLYHT, we essentially remained headcount neutral through 2016, despite our significant revenue growth in the year.

* EBITDA: defined as earnings before interest, income tax, depreciation and amortization.

- FLYHT had a China FLYHT Plan goal in 2016 to remain vigilant to help customers there meet the 2017 satellite communication mandate and to complete an AFIRS repair depot.
  - o FLYHT had a productive year in China in 2016, closing eight new contracts.
  - o FLYHT launched our recurring revenue services with one airline customer. Additional customers have been turned on for trial purposes in anticipation of securing future data service contracts.
  - o We established an agreement with GAMECO, a major maintenance, repair and overhaul center and have made significant progress preparing the facility that will handle all FLYHT's in-country warranty work as well as post-warranty repair.
  - o China remains our largest growth area and our contractual backlog there can represent significant future revenues for FLYHT as our partners execute their business plans and outfit their fleets. FLYHT is still pursuing opportunities in the country for both AFIRS hardware sales and the corresponding recurring data services.
- FLYHT met its goal by developing and deploying a cloud-based server called UpTime Cloud. We have deployed it for several accounts and will ultimately migrate all users from the legacy system to this new and exciting platform. We are engaged in launching all new services in China on this platform, which offers significant enhancements in the user interface and functionality over the legacy platform. We will continue to add capability and aircraft types to this new service through this year and beyond.
- FLYHT identified and hired the resources for a 24x7 service call center in 2016. The center is now functional and is providing level-one service, augmenting our Calgary-based team to provide 24-hour support to our clients, seven days per week. We have invested significant resources and made several improvements in the customer account management resources in the past year and the surveys that we conduct indicate our customer base acknowledges and appreciates the continuous improvements we target in this area.

One goal not accomplished in 2016 was the acquisition of new OEM business. We continue to very actively pursue a new OEM position and this remains a goal in our 2017 FLYHT Plan. In addition to a new OEM, FLYHT set goals to acquire new business in southeast Asia, Europe and the Middle East to continue to diversify our customer base. Of course, we want to continue the success we have demonstrated in China and have a goal to secure a major recurring service deal there. We have also established goals to remain EBITDA positive in 2017 and to grow our overall revenues and our recurring monthly revenues by at least 25% over December 2016. Growing recurring revenues is now the centerpiece of "Achieve Excellence - 2017". Finally, from a capital markets perspective, we will continue to focus on growing the public value of the Company through strategic business initiatives. We believe these are a challenging set of goals to guide us through 2017 and, when combined with our internal goals, we feel like 2017 will be pivotal in our quest to be a strong industry player.

FLYHT expects 2017 to also bring new opportunities given our demonstrated, commercially available expertise in real-time access to flight recorder data. We are cooperating with several OEMs who see FLYHT as the standard bearer and industry expert in this area. New mandates from the International Civil Aviation Organization (ICAO) will require timely access requirements for new airframes and FLYHT's unique system can provide a means of compliance.

On behalf of FLYHT, I want to convey the very positive spirit that exists within the Company right now. We are excited with our prospects and are continuously looking for ways to improve everything that we do. I know from my various contacts with stockholders and stakeholders that there is a large amount of goodwill for FLYHT, despite the long runway that the Company has been navigating. I'd like to thank you for your patience, for your support and I look forward to being able to discuss several exciting opportunities as they manifest.

Thomas R. Schmutz

Chief Executive Officer

Management Discussion & Analysis

This management discussion and analysis ("MD&A") is as of April 4, 2017 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, 2016 and 2015 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, 2016 consolidated financial statements and the notes thereto 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 International Financial Reporting Standards (IFRS) or Generally Accepted Accounting Principles (GAAP). It also occasionally uses certain non-GAAP financial measures, such as working capital, modified working capital, earnings before interest, income tax, depreciation and amortization (EBITDA), and loss before research, development and certification engineering expenses (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. EBITDA is defined as income for the period, before net finance costs, depreciation and amortization of assets. 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, 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, United States (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. and other military activity, market prices, availability of satellite communication, 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.

FLYHT Overview

FLYHT is a leading provider of real-time aircraft intelligence and cockpit communications for the aerospace industry. More than 70 customers, including airlines, leasing companies and original equipment manufacturers, have installed our systems in order to increase safety, improve operational efficiencies and enhance profitability. FLYHT's tools deliver data and voice communication between the aircraft and operations groups on the ground, on demand. The Company's products are available for commercial, business and military aircraft. FLYHT's proprietary technology, the Automated Flight Information Reporting System (AFIRS™), operates on multiple aircraft types and provides functions such as safety services voice and text messaging, data collection and transmission, and on-demand streaming of flight data recorder (black box), engine and airframe data. AFIRS has flown over 2.5 million aggregate flight hours and 1.7 million flights on customers' aircraft. FLYHT holds supplemental type certificates (STC) which allow for the installation of AFIRS on 95% of transport category aircraft.

FLYHT's products and services are marketed globally by a team of employees and agents based in Canada, the United States, China, and Australasia.

AFIRS™ and UpTime™

AFIRS is a device installed on aircraft that monitors hundreds of essential functions from the aircraft and the black box. AFIRS sends this information through the Iridium satellite network to FLYHT's UpTime ground-based server, which routes the data to customer-specified end points and provides an interface for real-time aircraft interaction. In addition to its data monitoring functions, AFIRS provides voice and text messaging capabilities that give pilots the ability to communicate with ground support. Value-added applications such as those described below are unique to FLYHT. FLYHT's global satellite coverage is enabled by the Iridium satellite network, providing service to our customers when they need it anywhere on the planet.

FLYHT first marketed its technology with the AFIRS 220 in 2004. The unit received regulatory certification for installation in a large number of widely used commercial aircraft brands and models (see systems approvals section). The AFIRS 228, released in 2009, incorporates improvements over the AFIRS 220 in processing capacity, data transmission characteristics and programmability. The AFIRS 228's features cater to the evolving needs of airlines by providing a customized and flexible product. In early 2016, FLYHT announced the Canadian Technical Standard Order (CAN-TSO) Design Approval, CAN-TSO-C159b for the AFIRS 228S. The certification, granted by Transport Canada, represents an additional level of airworthiness standards met by AFIRS to provide safety services messages and data.

FLYHTStream™

A revolutionary, industry-leading technology that performs real-time triggered alerting and black-box data streaming in the event of an abnormal situation on an aircraft. FLYHTStream can be activated automatically by a set of pre-determined factors, by the pilots or on the ground by airline operations. It uses AFIRS' onboard logic and processing capabilities in combination with UpTime's ground-based servers to interpret and route alerts and messages from the aircraft in trouble to key groups on the ground, such as the airline, operation centers and regulators. Animation software converts the raw FDR data into visual data that can be viewed from any computer, providing ground personnel a view of the controls and awareness of what's happening onboard the aircraft.

FLYHTFuel™

A powerful program that focuses attention on areas of greatest savings potential to provide information necessary to make decisions about the operation. Most airlines currently rely on a system of manually generated and analyzed reports 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. FLYHTFuel is both a report-generation tool and a dynamic, interactive application that generates alerts and provides the user with the ability to quickly identify trends. The dashboard compares how pilots are operating the aircraft to how they could be flying in order to maximize efficiency and fuel savings. The unique application highlights exceptions to best practices, provides quick drill downs to spot the root cause of issues, and identifies trends. 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. It is an intuitive tool that enables fuel managers to act on information instead of compiling and analyzing data.

FLYHTASD™

An aircraft situational display that shows the aircraft position reports from AFIRS via the Iridium satellite network. A unique application that integrates real-time flight following, routine aircraft notifications, aircraft health exceedance alerts and the ability to send text messages immediately to the aircraft. The program supports a number of aviation-specific tools including charts and weather information. It also provides the aircraft operator with the ability to start FLYHTStream on their airborne aircraft at any time.

FLYHTHealth™

Consists of automated engine and airframe trend monitoring and real-time exceedances and diagnostics. Automated trend reports with configurable reporting intervals notify the airline when a maintenance event has occurred. Leveraging the global coverage of the Iridium satellite network, FLYHTHealth allows the airline to request data directly from the engine once a problem has been detected. The airline can then use FLYHT's real-time systems diagnostics capabilities to interrogate systems information and identify the source of the problem and prepare the arrival station for repair, long before the aircraft lands at its destination. By automating and enhancing the real-time and long-term monitoring of airplane data, FLYHTHealth enables proactive management of maintenance and reduces downtime and the financial impact of unscheduled maintenance.

FLYHTLog™

Allows operators to monitor the status of their aircraft and have detailed Out, Off, On and In (OOOI) time information. It allows airlines to automatically route aircraft system and operational data to various partner systems. Additionally, FLYHTLog increases situational awareness and accurate flight times, saving money on flight crew pay, operating costs and maintenance operations.

FLYHTMail™

Two-way text messaging to the flight deck is established through the multi-control display unit (MCDU) or an iPad application. Updated crew assignments, crew repositioning and tail swaps can be sent to the aircraft directly and immediately. Text messaging is highly useful to manage diversions due to weather, mechanical occurrences or other unforeseen situations.

FLYHTVoice™

The onboard satellite phone, using the Iridium satellite constellation with global coverage, is a rapid and reliable private communication channel for the flight deck. When operating remote or oceanic flights, it allows dispatch to supply updated information to the crew with no delay. The voice capability is particularly valuable during emergency situations or irregular operations.

FLYHT has discontinued active sales of the Dragon™. This decision will not impact FLYHT's current Dragon customers.

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. 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

FLYHT is TCCA Approved Manufacturer, Approved Maintenance Organization and an EASA and a CAAC Part 145 Repair Facility. FLYHT is part of a select group of Canadian companies who are approved by TCCA as a Design Approval Organization (DAO). The Company also holds multiple STCs to make appropriate modifications, such as installing FLYHT's AFIRS technology, to an aircraft's approved design.

FLYHT has received STC approvals from TCCA, FAA, EASA, CAAC, ANAC and DGAC for various aircraft models depending on customer requirements.

FLYHT's expertise in airworthiness certification enabled it, in October 2008, to join a select group of Canadian companies who are approved by TCCA as a 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 wait times, and reduces cost and reliance on contractors.

As a component of its DAO status, the Company employs the services of a delegated engineer, allowing for the approval of changes and the systems and electrical design aspects of an airworthiness certification. If an issue is encountered during the STC process, the delegate has the authority to approve necessary changes and continue the process without the involvement of an external party.

The process to receive an STC takes some time, but in all cases, it starts with an STC application through the TCCA, FAA or EASA. FLYHT typically starts the process with TCCA by opening an application with the regulator before an STC package is created. The data package is prepared, including engineering documents outlining how AFIRS equipment is substantiated and installed on the aircraft, and the package is submitted to TCCA for approval.

Once approved, first-of-type ground and flight testing takes place to fulfill regulatory requirements. FLYHT requires access to the proposed types and models of aircraft, which is done in cooperation with an existing or potential customer.

After all tests are complete, FLYHT submits an application for the activation and data package to TCCA confirming all regulatory requirements have been met and the AFIRS unit is fit for operation on that aircraft type as designed. From there, TCCA approves the submission and an STC is issued.

To acquire an STC from a different national regulator, FLYHT submits an application through TCCA to a regulator such as the FAA or EASA with the STC data package previously approved by TCCA. The regulator then reviews the package and issues an STC for that country based on their validation of the TCCA STC.

Timelines required for the TCCA approval process will vary depending on aircraft and workloads, but typically take about three to four months, with an additional three to eight months if an STC is required from another regulator like the FAA or EASA.

TCCA		FAA		EASA		CAAC		ANAC		
220	228	220	228	220	228	220	228	220	228	
A	A	A	A	A	A	A	A			**Airbus A319, A320, A321**
A										**Airbus A330**
	A		A						A	**ATR42 -300**
	A		I							**ATR42 -500**
	A		A						A	**ATR-72 -100, -200**
					A*					**ATR42-500 "600 Version" *STC Twenty One**
					A*					**ATR72-212A "600 Version" *STC Twenty One**
A		A		A		A				**Boeing B737 -200**
A	A	A	A	A	I	A	I		A	**Boeing B737 -300, -400, -500**
A		A		A		A				**Boeing B737 -600**
A	A	A	A	A	I	A	A		A	**Boeing B737 -700, -800**
			I				I			**Boeing B737 -900**
	A						I			**Boeing 747-200**
A	A	A	A	A	I	A	A			**Boeing 757 -200**
A	A	A	A	A	I	A	A			**Boeing 767 -200, -300**
	A		A							**Boeing B777**
A	A*	A	I*	A	A*					**Bombardier DHC 8 -100, -200, -300 *Avmax**
A	P						I			**Bombardier DHC 8 -400**
A	A	A		A			A			**Bombardier CRJ 100, 200, 440**
	A						A			**Bombardier CRJ -700, 900**
A		A								**McDonnell Douglas DC-10 (KC-10 military)**
			A							**McDonnell Douglas MD-82**
	A		A							**McDonnell Douglas MD-83**
A										**Fokker 100**
A	A	A	A	A	A					**Hawker Beechcraft -750, 800XP, 850XP, 900XP**
A										**Viking Air DHC -7 (LSTC)**
	P		I				I			**Embraer EMB 190**
		A								**Embraer Legacy 600 and EMB – 135/145**

FLYHT has also received an approved AFIRS 228 STC for the Bombardier CRJ- 700, 900 from the DGAC. AFIRS 220 or 228 model

A = Approved, P = Pending (We have received a Provisions STC and are in the final stages before receiving a full STC), I = In Progress.

FLYHT announced additional certification in January 2016, with the receipt of the CAN-TSO-C159b for the AFIRS 228S. A Technical Standard Order is a minimum performance standard issued by an airworthiness authority for specified materials, parts, processes, and appliances used on civil aircraft. Issuance of the CAN-TSO by TCCA through international agreements, represents recognition of the AFIRS 228S in the world's major airworthiness jurisdictions, thus simplifying the STC and installation process.

This TSO certification confirms that AFIRS 228S meets all product requirements, including DO-262B Minimum Operational Performance Standards for Avionics Supporting Next Generation Satellite Systems (NGSS), for an Iridium SATCOM supporting Future Air Navigation System (FANS) -1/A capability. FANS allows for and supports improved data and surveillance of aircraft flying in remote regions and over the oceans. Additionally, the certification enables voice and data services for Air Traffic Control (ATC), Aeronautical Operational Control (AOC) and Air-to-Air Communication (AAC) using Iridium's global satellite network. The system also provides ACARS over Iridium messaging capability.

Trends and Economic Factors

FLYHT examines the results of measurements made by leading aviation associations and corporations in order to gain insight on the status of the industry.

The Aviation Industry in 2016

The International Air Transport Association's (IATA) quarterly industry results, measured in Revenue Passenger Kilometres (RPK) and Freight Tonne Kilometres (FTK) are the passenger and freight contributions to airline revenue and are significant markers to determine the health of the industry. Passenger traffic (measured in RPK) saw a 6.3% increase in 2016 compared to the previous year. 2016 results were also ahead of the ten-year average growth rate of 5.5%[1]. All regions saw demand growth in passenger traffic, and load factors that measure the capacity utilization of flights were at a record annual high of 80.5%. 700 new routes were added world-wide and 3.7 billion passengers flew in the year. Demand in domestic markets at 5.7% was slightly lower than international travel at 6.7%. Global freight traffic (measured in FTK) increased by 3.8% in 2016, which almost doubled the industry's 2.0% average growth in the past five years [2]. All regions, outside of Latin America, experienced positive freight growth. The lead region was Europe at 7.6%, which accounted for almost half of the total global annual increase in freight demand, and the Middle East was in second place, with an increase of 6.9%, even though the region experienced its slowest pace of growth since 2009.

Results from large commercial aircraft manufacturers were mixed in 2016, although their backlog and projections remain positive going forward. Airbus continued its growth with a new record for aircraft deliveries of 688 aircraft for 82 customers, an increase from 635 aircraft to 85 customers in 2015[3]. At the end of 2016, Airbus' overall backlog stood at 6,874 aircraft valued at US $1 trillion at list prices. On March 2, 2016, construction of the Airbus China A330 completion and delivery center started in Tianjin, where A330 aircraft will be finished and delivered to Chinese clients. It is the company's first completion and delivery center for wide-body aircraft outside of Europe[4]. Boeing's deliveries decreased from 762 aircraft in 2015 to 748 in 2016[5]. Boeing introduced and shipped 82 B737 MAX, a re-engined version of their successful B737 which helps their customers save fuel through new engine technologies. Boeing published their backlog at the end of 2016 as 5,712 aircraft including 4,452 B737 aircraft and 700 B787 aircraft. This backlog represents orders of nearly US $500 billion[6]. Embraer continued to see improved results from 2015 and delivered a total of 108 commercial and 117 executive jets (73 light and 4 large), in 2016[7]. The total aircraft delivered is the highest volume of deliveries in six years. The manufacturer has a backlog of 450 aircraft. Bombardier delivered less aircraft than the previous year, a total of 249 business and commercial jets compared to 275 aircraft in 2015. While business jet deliveries decreased 36%, commercial deliveries increased 10% over the previous year[8]. Bombardier's backlog at the end of 2016 is $15.4 billion in business jets and 436 commercial aircraft.

Results released for the general aviation industry were weak because of the continued downturn in the economy. The General Aviation Manufacturers Association (GAMA) reported that numbers in worldwide general aviation airplane shipments in 2016 were down 3.9% at 2,241 compared to 2,331 in 2015[9].

Future Industry Projections

According to IATA's 2017 outlook[10], the global aviation industry is in the middle of what is expected to be the most profitable three-year span of its history, and is expected to retain USD $7.54 for every passenger carried in 2017. IATA reports that the industry is expected to add 1,700 new aircraft in 2017, expanding the global commercial fleet by 3.6% to 28,700. In addition, flights in 2017 are expected to increase 4.9% over 2016. Margins remain tight for airlines on their route to profitability depending on the regions they operate in. African, Middle Eastern and Latin American carriers remain close to or below break-even (many airlines are at a loss). While airline profits in North America are significantly ahead of other regions.

The world's two largest airplane manufacturers, Boeing and Airbus, predict strong industry growth in new aircraft shipments in the next twenty years. Boeing predicts a need for 39,000 new aircraft worth US $5.9 trillion[11] and Airbus' states the demand for 33,000 aircraft worth US $5.2 trillion[12]. Asia is expected to become the world's leading travel market and will constitute 48.7% of global passenger traffic by 2035[13], with China needing 1,500 new widebody aircraft and 5,100 single-aisle airplanes.

With the growth in the industry, the aviation market is increasingly relying on satellites for safety and operations as well as cockpit communications. According to Euroconsult, a global consulting and research firm, the biggest use of satellites is for communications and is continuing to grow[14]. They forecast the launch of 1,450 satellites between 2016 and 2025, a market of $250 billion[15].

1 http://www.iata.org/pressroom/pr/Pages/2017-02-02-01.aspx

2 http://www.iata.org/pressroom/pr/Pages/2017-02-01-01.aspx

3 http://www.airbus.com/newsevents/news-events-single/detail/airbus-achieves-targets-proving-ramp-up-readiness-in-2016/

4 http://www.airbus.com/newsevents/news-events-single/detail/airbus-achieves-targets-proving-ramp-up-readiness-in-2016/

5 http://boeing.mediaroom.com/2017-01-25-Boeing-Reports-Fourth-Quarter-Results-and-Provides-2017-Guidance

6 http://boeing.mediaroom.com/2017-01-25-Boeing-Reports-Fourth-Quarter-Results-and-Provides-2017-Guidance

7 http://www.embraer.com/Documents/noticias/001%20embraer%20deliveries%204q16-ins-vpf-i-17%20vale%20este.pdf

8 http://ir.bombardier.com/en/press-releases/press-releases/67577-bombardier-reports-fourth-quarter-and-full-year-2016-results

9 http://gama.aero/media-center/press-releases/content/gama-unveils-2016-year-end-aircraft-shipment-and-billings-number

10 http://www.iata.org/whatwedo/Documents/economics/IATA-Economic-Performance-of-the-Industry-end-year-2016-report.pdf

11 http://www.boeing.com/commercial/market/long-term-market/world-regions/#/cis

12 http://www.airbus.com/company/market/global-market-forecast-2016-2035/

13 http://www.boeing.com/commercial/market/long-term-market/world-regions/#/cis

14 http://www.euroconsult-ec.com/research/satellite-value-chain-2016-extract.pdf

15 http://www.euroconsult-ec.com/13_September_2016

FLYHT's Market

FLYHT's technology is available to a number of sectors within the global aerospace industry. AFIRS technology can be installed on commercial, business or military aircraft. FLYHT's primary sales target has been commercial passenger and freight air transport customers, and the secondary targets are business jet aircraft (used for business and personal travel) and military air transport aircraft that require AFIRS functionality. FLYHT's business relies primarily on retrofitting existing aircraft to provide recurring, real-time aircraft data services. It is FLYHT's objective to win additional positions on new aircraft, with a goal to fit AFIRS equipment on the aircraft during production so that services can be turned on immediately after delivery to the customer.

FLYHT remains an industry leader in providing increased operational control and aircraft situational awareness. The Company has focused on the development and implementation of a cloud-based UpTime software over the past year and a half. UpTime Cloud marks an improvement in the Company's current technology with real-time systems diagnostics. The technology relies on the use of satellites for real-time communication with the aircraft. The FLYHTHealth program within UpTime Cloud is significant in its ability to detect and notify the airline of any problems while the aircraft is in flight and allow the operator to prepare for repair before the aircraft lands, thereby reducing the financial impact of unscheduled maintenance. FLYHT has participated in industry events and working groups to demonstrate AFIRS' capabilities and the real-time data streaming enabled by FLYHTStream. FLYHT will continue to participate in industry working groups to advance engineering and technical requirements and prepare for future development of the AFIRS product line to meet industry needs.

The strengthening of the Canadian dollar relative to the U.S. dollar throughout 2016 had a negative impact on the Company's revenue and income compared to 2015. As a result of these currency movements, the Company's revenues, which are substantially all denominated in U.S. dollars, were lower 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 operating and overhead costs are denominated in Canadian dollars, a significant portion of the cost of sales, marketing and distribution costs are U.S. dollar denominated, and therefore a natural hedge exists against fluctuations of the Canadian dollar.

Contracts and Achievements of Fiscal 2016

Contracts

In February, FLYHT announced a strategic partnership with Flight Data Services Ltd., a global leader in flight data monitoring, to offer a complete flight data acquisition and analysis solution to the aviation industry.

In March, FLYHT announced that contracts had been signed in the six months then ended with six new airlines (four new contracts in 2016 including two in China) that will install AFIRS and/or sign up for UpTime services. The aggregate revenue on all six contracts is expected to be approximately USD $615,000.

In April, FLYHT announced an order from an OEM partner for USD $1.2 million in parts with related license fees, for immediate delivery, and signed its third Chinese airline customer of the year to contract. The aggregate revenue from the Chinese customer will be approximately USD $1 million.

FLYHT signed five new contracts for voice and data services in the second quarter of 2016 with a value of USD $2.3 million over the term of the agreements.

FLYHT received parts orders from an existing OEM partner for approximately USD $1.0 million of parts with related license fees.

FLYHT signed one new sales agreement for AFIRS 228 hardware equipment of approximately USD $227,000 in China.

The Company signed an order for voice and data services for an operator in Africa which will total USD $156,000.

FLYHT announced updates to customer and parts sales activity in the third quarter of 2016 including parts orders from an existing OEM partner for USD $1.0 million of parts with related license fees.

FLYHT signed one new hardware agreement for AFIRS 228 in China and one new operator in Africa for voice and data services.

In August, FLYHT announced the launch of real-time data services in China. The undisclosed airline was the first Chinese customer to select data services provided by AFIRS on its fleet of CRJ-900 aircraft. The aggregate data services revenue on this contract is initially valued at USD $1.05 million.

Subsequent to the end of the third quarter, FLYHT entered into an agreement with an Information Technology Company that implements data solutions for Chinese commercial aviation operators for the sale of the AFIRS 228S with the initial hardware valued at approximately USD $4.26 million. In November, FLYHT announced an amendment to the contract to increase to an approximate value of USD $6.94 million.

In November, FLYHT announced a contract with Guangzhou Aircraft Maintenance Engineering Company Limited (GAMECO) to provide repair services to FLYHT's customers in China. GAMECO specializes in aircraft and airborne component MRO.

At the end of the year, FLYHT announced updates from the fourth quarter including receipt of orders from an existing OEM partner for approximately USD $1.8 million parts with related license fees.

FLYHT also signed two new airline customers in China for AFIRS 228 during the fourth quarter for a total value of approximately USD $709,000.

During Q4, two existing customers added AFIRS 228 units with voice and data services for revenue value of approximately USD $811,000.

Achievements

- In January, FLYHT announced receipt of CAN-TSO-C159b, for AFIRS 228S.
- In January, FLYHT announced the approval of the extension of the debenture conversion expiry date to December 2016 and amendment of the conversion price to $0.25.
- In February, FLYHT announced that as part of its investor relations strategy for 2016, it would continue to engage the services of The Howard Group Inc. to assist with its investor relations activities.
- In April, FLYHT announced the receipt of the first of two milestone payments of the aggregate $2.5 million USD license fee due from a technology company the "Licensee". The second milestone was received later in the quarter.
- In May, FLYHT announced that it closed a private placement offering for aggregate consideration of $5,086,512.
- In May, FLYHT announced STCs for the AFIRS 228. The approved aircraft types include the ATR 42-500 "600 version" and the ATR 72-212A "600 version" from EASA, the Boeing B757-200 aircraft from the FAA and the TCCA STC for the Bombardier DHC 8 -100, 200, 300 series aircraft.
- In June, FLYHT announced appointment of Matieu Plamondon, Vice President Operations and Customer Fulfillment and David Perez, Vice President Sales and Marketing as officers of the Company.
- In the second quarter, FLYHT also received the CAAC STC for the Boeing 767 200 and 300 series.
- In June 2016 FLYHT's outstanding debentures matured and were repaid in full for $2.5 million.
- During the third quarter, FLYHT received new STCs for the AFIRS 228 from the FAA including the ATR 42-300 and the ATR 72-100/200 aircraft.
- In November FLYHT was awarded a $2.35 million Western Innovation Initiative (WINN) repayable contribution by Western Economic Diversification Canada.
- In December FLYHT was granted CAAC Part-145 approval by the CAAC. The approval took almost two years to achieve and allows FLYHT to repair AFIRS units and return them to customers in China with an AAC-038 release certificate.
- In December FLYHT's outstanding redeemable debentures matured and were repaid in full for $3.1 million.
- FLYHT was awarded an STC from the CAAC in December that allows for further installation on the CRJ 100, 200, 440, 700 and 900 aircraft.

Results of Operations – Years Ended December 31, 2016, 2015 and 2014

Selected Results

2016	Q4 $	Q3 $	Q2 $	Q1 $	Total $
Assets	6,516,206	9,189,104	9,655,504	5,803,079	6,516,206
Non-current financial liabilities	974,749	996,121	1,002,872	602,011	974,749
Revenue	4,127,827	4,054,368	3,537,665	2,611,331	14,331,191
Cost of sales	1,034,450	1,346,341	1,278,746	861,965	4,521,502
Distribution expenses	1,424,211	1,101,318	1,248,783	1,132,727	4,907,039
Administration expenses	719,097	626,733	1,103,399	638,427	3,087,656
Research, development and certification engineering expenses	725,739	550,443	336,871	988,176	2,601,229
Income (loss) from operating activities	224,330	429,533	2,793,032	(1,009,964)	2,436,931
Depreciation	18,687	16,302	15,562	16,128	66,679
EBITDA*	243,017	445,835	2,808,594	(993,836)	2,503,610
Income (loss)	79,709	303,890	2,572,061	(1,242,942)	1,712,718
Income (loss) before R&D	805,448	854,333	2,908,932	(254,766)	4,313,947
Income (loss) per share (basic & fully diluted)	0.00	0.00	0.02	(0.01)	0.01
2015	**Q4 $**	**Q3 $**	**Q2 $**	**Q1 $**	**Total $**
Assets	5,478,867	6,140,675	6,344,752	7,752,509	5,478,867
Non-current financial liabilities	390,110	3,267,030	3,053,577	5,407,303	390,110
Revenue	3,769,267	2,519,347	1,598,603	2,569,908	10,457,125
Cost of sales	1,340,513	672,341	562,535	637,901	3,213,290
Distribution expenses	1,084,443	1,142,086	987,330	763,774	3,977,633
Administration expenses	1,573,796	607,755	943,931	551,471	3,676,953
Research, development and certification engineering expenses	689,195	638,104	737,968	737,285	2,802,552
Loss from operating activities	(918,680)	(540,939)	(1,633,161)	(120,523)	(3,213,303)
Depreciation	15,896	13,652	13,707	13,618	56,873
EBITDA*	(902,784)	(527,287)	(1,619,454)	(106,905)	(3,156,430)
Loss	(1,203,998)	(683,224)	(1,943,924)	(60,414)	(3,891,560)
Income (loss) before R&D	(514,803)	(45,120)	(1,205,956)	676,871	(1,089,008)
Income (loss) per share (basic & fully diluted)	(0.01)	0.00	(0.01)	0.00	(0.02)
2014	**Q4 $**	**Q3 $**	**Q2 $**	**Q1 $**	**Total $**
Assets	8,275,546	8,968,372	10,281,225	9,734,630	8,275,546
Non-current financial liabilities	5,506,179	2,728,769	2,433,044	2,262,812	5,506,179
Revenue	2,218,681	1,808,794	1,505,767	1,348,786	6,882,028
Cost of sales	849,221	655,927	604,860	440,043	2,550,051
Distribution expenses	990,650	806,051	816,240	780,050	3,392,991
Administration expenses	780,039	985,756	1,119,379	663,344	3,548,518
Research, development and certification engineering expenses	772,725	848,119	(1,277,790)	434,695	777,749
Income (loss) from operating activities	(1,173,954)	(1,487,059)	243,078	(969,346)	(3,387,281)
Depreciation	1,932	22,127	21,859	19,404	65,322
EBITDA*	(1,172,022)	(1,464,932)	264,937	(949,942)	(3,321,959)
Loss	(1,305,712)	(1,653,147)	(46,925)	(1,273,101)	(4,278,885)
Loss before R&D	(532,986)	(805,028)	(1,324,716)	(838,406)	(3,501,136)
Loss per share (basic & fully diluted)	(0.01)	(0.01)	(0.00)	(0.01)	(0.03)

*See Non-GAAP Financial Measures

Weighted Average Shares Outstanding

	2016 $	2015 $	2014 $
Basic	195,070,653	172,423,488	166,441,119
Diluted	195,419,579	172,423,488	166,441,119

Financial Position

Liquidity and Capital Resource

The Company's cash at December 31, 2016 decreased to $709,958 from $1,301,955 at December 31, 2015. The Company has an available and undrawn operating line of $250,000 at Canadian chartered bank prime plus 1.5%, secured by assignment of cash collateral and a general security agreement.

At December 31, 2016, the Company had positive working capital of $1,724,190 compared to negative $5,413,927 as of December 31, 2015, an increase of $7,138,117. Neither customer deposits, nor the current portion of unearned revenue are refundable, and if those two items are excluded in the working capital calculation, the resulting modified working capital at December 31, 2016 would be positive $2,869,324 compared to negative $3,306,055 at December 31, 2015.

On May 12, 2016, the Company closed a private placement, issuing 33,910,081 units at a price of $0.15 per unit, for total proceeds of $5,086,512. Each unit consisted of one common share and one-half of one share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share of the Company for a period of 24 months from the issuance of the units at a price of $0.25. Finder's fees totaled $317,275. A total of 2,115,167 finder's warrants were also issued, exercisable into one unit at $0.15 per unit within 24 months from the closing date. All of the common shares and warrants issued pursuant to the private placement were subject to a 4-month hold period.

The Company granted a non-exclusive license to use certain of its intellectual property to a technology company for an aggregate license fee of $3,223,166. Payment was received for both contracted milestones in Q2 2016.

A portion of the net proceeds of the private placement and the non-exclusive license were used to repay the debentures that were due in June 2016 and to redeem the debentures that matured on December 23, 2016.

The Company funded 2016 operations primarily through the private placement, the receipt of the funds resulting from the sale of a non-exclusive license and cash received from sales. The Company will continue to strive to self-fund operations through 2017.

	2016 $	2015 $	Variance $
Cash and cash equivalents	709,958	1,301,955	(591,997)
Restricted cash	250,000	250,000	-
Trade and other receivables	2,105,385	898,166	1,207,219
Deposits and prepaid expenses	216,819	137,861	78,958
Inventory	1,556,794	1,716,313	(159,519)
Trade payables and accrued liabilities	(2,163,307)	(2,757,707)	594,400
Unearned revenue	(827,235)	(1,087,197)	259,962
Loans and borrowings	(97,895)	(5,840,418)	5,742,523
Finance lease obligations	(15,553)	(27,922)	12,369
Current tax liabilities	(10,776)	(4,978)	(5,798)
Working capital	**1,724,190**	**(5,413,927)**	**7,138,117**
Unearned revenue	827,235	1,087,197	(259,962)
Customer deposits	317,899	1,020,675	(702,776)
Modified working capital*	**2,869,324**	**(3,306,055)**	**6,175,379**

*See Non-GAAP Financial Measures

In 2016 option exercises resulted in the Company issuing a total of 54,050 shares for total proceeds of $12,070 including:

a) 24,050 options were exercised at $0.19 per share for proceeds of $4,570

b) 30,000 options were exercised at $0.25 per share for proceeds of $7,500

As at April 4, 2017 FLYHT's issued and outstanding share capital was 208,629,439.

The consistent achievement of positive earnings 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 and signature of an increasing size and number of contracts for delivery of AFIRS units and related services. 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. 2016 revenue was a 37% increase over 2015 which contributed to an operating income of $2,436,931; being $5,650,234 more than 2015.

To continue as a going concern, the Company will need to maintain profitability and/or obtain additional financing to fund ongoing operations. If general economic conditions in the industry or the financial condition of a major customer deteriorates, or revenue streams and expanding markets adversely change, 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 to revenue 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.

Financial Instruments

The Company is exposed to fluctuations in the exchange rates between the Canadian dollar and other currencies with respect to assets, sales, expenses 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.

There is a credit risk associated with accounts receivable where the customer fails to pay invoices. The Company extends credit to credit-worthy or well-established customers. In the case of AFIRS sales the invoiced amount is frequently 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 services are provided. To further minimize credit exposure credit insurance is obtained on select customers whose balances have not been prepaid. In the case of monthly recurring revenue, the Company has the ability to disable the AFIRS unit transmissions where the customer has not fulfilled its financial obligations.

Contractual Obligations

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

December 31, 2016	< 2 months $	2-12 months $	1-2 years $	2-5 years $	> 5 years $	Total $
Accounts payable	769,261	-	-	-	-	769,261
Compensation and statutory deductions	371,303	349,223	108,000	45,000	-	873,526
Finance lease liabilities	4,970	10,826	-	-	-	15,796
Accrued liabilities	83,497	82,206	11,658	25,259	-	202,620
Loans and borrowings	-	103,768	119,333	476,546	1,030,935	1,730,582
Total	**1,229,031**	**546,023**	**238,991**	**546,805**	**1,030,935**	**3,591,785**

Under SADI, the Company has, at December 31, 2016, an outstanding repayable balance of $1,730,582, compared to $1,820,816 at December 31, 2015. The amount is repayable over 15 years on a stepped basis commencing April 30, 2014. The initial payment on April 30, 2014 was 3.5% of the total contribution received and the payment increases yearly by 15% until April 30, 2028 when the final payment will be 24.5% of the total contribution received. The repayment in 2016 was $90,234 (2015: $78,462).

A summary of the SADI loan carrying value as at December 31, 2016 and 2015 and changes during these years is presented below.

	2016 $	2015 $
Balance January 1	984,507	899,600
Interest accretion	178,368	163,369
Repayment	(90,234)	(78,462)
Balance December 31	1,072,641	984,507
Less current portion	103,768	90,234
Non-current portion	968,873	894,273

A summary of the SADI outstanding payable balance as at December 31, 2016 and 2015 and changes during these years is presented below.

	2016 $	2015 $
Balance January 1	1,820,816	1,899,278
Repayment	(90,234)	(78,462)
Balance December 31	**1,730,582**	**1,820,816**

The redeemable debenture issued in two tranches on April 18 and May 28, 2013, for an aggregate $2,110,000, matured on June 30, 2016 and was redeemed for $2,321,000.

The convertible debenture issued December 23, 2010 had an original face value of $3,159,000 and was set to mature on December 23, 2014. On December 22, 2014 approval was received to extend the maturity date of the debentures then remaining outstanding from four to six years, to December 23, 2016. The debentures were redeemed on December 23, 2016 for $3,039,000 plus accrued interest.

On November 9, 2016, the Company signed a contribution agreement with Western Economic Diversification Canada for a Western Innovation initiative (WINN) repayable contribution to support plans for technology development in the air and ground components of the products. Under the terms of the agreement, a repayable unsecured WINN contribution to the value of the lesser of 50% of the eligible project costs to March 31, 2019 or $2,350,000 will be received. The amount is repayable over five years commencing January 1, 2020. At December 31, 2016, the Company had not yet received a contribution and no loan amount was outstanding.

Minimum lease payments are as follows.

Year	Total $
2017	15,796

Customer Deposits

FLYHT's revenue recognition for AFIRS sales and Parts sales 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 Solution.

Customers are frequently required to pay for AFIRS units and 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. When the AFIRS unit and installation kit are shipped, the customer deposit is reclassified to unearned revenue, where it will remain until the revenue recognition criteria for each contract has been met, at which point the unearned revenue is recognized as AFIRS sales revenue.

When customers order spare parts or Underfloor Stowage Units and a prepayment is required, it is also recorded as a customer deposit. The Parts sales revenue is recognized when the ordered part or unit is shipped.

Customer deposits are amounts received for AFIRS 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, 2016 and 2015. Payment was received for 14 installation kits in the fourth quarter of 2016 compared to 11 received in the fourth quarter of 2015, bringing 2016 year-to-date ("YTD") total payments for installation kits to 58, compared to a total of 36 in 2015.

	Q4 2016 $	Q4 2015 $	Variance $	YTD 2016 $	YTD 2015 $	Variance $
Opening balance	508,224	524,325	(16,101)	1,020,675	790,405	230,270
Payments received	512,257	1,229,085	(716,828)	2,681,987	2,828,055	(146,068)
Moved to unearned revenue	(702,582)	(732,735)	30,153	(3,384,763)	(2,597,785)	(786,978)
Balance, December 31	**317,899**	**1,020,675**	**(702,776)**	**317,899**	**1,020,675**	**(702,776)**

Unearned Revenue

The chart below outlines the movement in the Company's unearned revenue throughout the periods ending December 31, 2016 and 2015. Revenue was recognized for 12 installation kits in 2016's fourth quarter compared to 28 in the fourth quarter of 2015. YTD, revenue has been recognized for 73 installation kits in 2016, as compared to 58 in 2015. In 2016, 100.0% of the unearned revenue balance at December 31, 2015 was recognized as earned revenue (2015: 65.9%).

	Q4 2016 $	Q4 2015 $	Variance $	YTD 2016 $	YTD 2015 $	Variance $
Opening balance	747,511	1,922,504	(1,174,993)	1,145,341	1,675,746	(530,405)
AFIRS sales shipped	702,582	732,735	(30,153)	3,384,763	2,597,785	786,978
Voice and data services prepaid	19,866	19,033	833	19,866	19,033	833
AFIRS sales recognized	(637,965)	(1,524,940)	886,975	(3,703,703)	(3,131,261)	(572,442)
Voice and data services recognized	(4,759)	(3,991)	(768)	(19,032)	(15,962)	(3,070)
Balance, December 31	**827,235**	**1,145,341**	**(318,106)**	**827,235**	**1,145,341**	**(318,106)**

Comprehensive Income

Revenue

In the categories listed in the revenue sources chart, **Voice and data services** is the recurring revenue from customers' usage of data they receive from AFIRS and use of functions such as the satellite phone. Usage fees are recognized as the service is provided based on actual customer usage each month. **AFIRS sales** includes the income from AFIRS hardware sales and related parts required to install the unit along with Dragon hardware sales. Upon shipment, these amounts 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 recognized as AFIRS sales revenue and the work in progress as cost of sales. **Parts sales** include the sale of spare AFIRS units, spare installation parts, modems with related manufacturing license fee, and Underfloor Stowage Units. **Services** revenue includes technical services, repairs and expertise the Company offers including the installation of operations control centres.

Revenue sources

	Q4 2016 $	Q4 2015 $	Variance $	YTD 2016 $	YTD 2015 $	Variance $
Voice and data services	1,169,741	1,067,894	101,847	4,375,138	3,986,813	388,325
AFIRS sales	854,406	1,574,559	(720,153)	3,931,607	3,372,421	559,186
Parts sales	2,091,720	1,123,803	967,917	5,808,491	2,932,100	2,876,391
Services	11,960	3,011	8,949	215,955	165,791	50,164
Total	**4,127,827**	**3,769,267**	**358,560**	**14,331,191**	**10,457,125**	**3,874,066**

Overall, total revenue increased 37.0% from $10,457,125 in 2015 to $14,331,191 in 2016. Voice and data services increased by 9.7%, Parts sales increased by 98.1%, AFIRS sales increased by 16.6%, while Services revenue increased by 30.3%.

Voice and data services increased compared to last year, due to a higher number of aircraft producing recurring revenue. Recurring revenue accounted for 28.3% of revenue in Q4 2016 (Q4 2015: 28.3%), and 30.5% YTD 2016 (YTD 2015: 38.1%). Recurring revenue from FLYHT's existing client base is expected to continue to expand throughout 2017 and future years.

AFIRS sales increased in 2016 as compared to 2015 due to an increased number of installation kits meeting the requirements for revenue recognition. YTD, revenue has been recognized for 73 installation kits, compared to 58 in 2015. Revenue was recognized for 12 installation kits in Q4 2016 compared to 28 in Q4 2015.

Parts sales increased both in the quarter and YTD in 2016 from 2015 due to differences in the number of modems with related license fees shipped in 2016.

Services revenue increased in the quarter and YTD in 2016 compared to 2015 due to a higher number of technical services provided to customers throughout 2016. This revenue category can be expected to vary significantly between periods and years.

Revenue sources for the last eight quarters were:

	Q4 2016	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015
Voice and data services	1,169,741	1,122,965	1,014,725	1,067,707	1,067,894	1,100,238	855,121	963,560
AFIRS sales	854,406	1,353,021	1,286,641	437,540	1,574,559	613,229	434,102	750,531
Parts sales	2,091,720	1,561,816	1,126,542	1,028,412	1,123,803	682,476	285,459	840,362
Services	11,960	16,566	109,757	77,672	3,011	123,404	23,921	15,455
Total	**4,127,827**	**4,054,368**	**3,537,665**	**2,611,331**	**3,769,267**	**2,519,347**	**1,598,603**	**2,569,908**

Gross Profit and Cost of Sales

FLYHT's cost of sales includes 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 while performing 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 2016 was 25.1% compared to 35.6% in 2015's fourth quarter. A review of the annual results shows the cost of sales as a percentage of revenue also increased from 30.7% in 2015 to 31.6% in 2016. The decrease in gross margin was due to differences in the mix of revenue sources in 2016 versus 2015 and a decrease in average AFIRS sales margin from 47.9% in 2015 to 44.5% in 2016. Gross margin will fluctuate quarter over quarter depending on customer needs and revenue mix.

Gross margin for the last eight quarters was:

	Q4 2016	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015
Gross Margin %	74.9	66.8	63.9	66.9	64.4	73.3	64.8	75.2
Cost of Sales %	25.1	33.2	36.1	33.1	35.6	26.7	35.2	24.8

Distribution Expenses (Recovery)

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

Major Category	Q4 2016 $	Q4 2015 $	Variance $	YTD 2016 $	YTD 2015 $	Variance $
Salaries and benefits	978,347	598,925	379,422	3,255,326	1,983,579	1,271,747
Share based compensation	4,625	(1,392)	6,017	97,067	91,658	5,409
Contract labour	155,528	204,594	(49,066)	498,106	829,298	(331,192)
Office	95,901	112,159	(16,258)	416,733	328,855	87,878
Travel	139,930	144,210	(4,280)	562,645	472,078	90,567
Equipment and maintenance	12,614	(5,052)	17,666	25,006	40,216	(15,210)
Depreciation	10,064	9,385	679	41,580	29,840	11,740
Marketing	27,202	21,614	5,588	113,879	100,169	13,710
Other	-	-	-	(103,303)	101,940	(205,243)
Total	**1,424,211**	**1,084,443**	**339,768**	**4,907,039**	**3,977,633**	**929,406**

Distribution expenses increased compared to 2015 due mainly to higher people costs offset by a recovery of a bad debt that had been written off in 2014.

Salaries and benefits increased in 2016 as compared to 2015 due to an increase in sales and customer satisfaction staff.

Contract labour decreased both in the quarter and YTD as a contract resource engaged in early 2015 was converted to full time staff, together with non-recurrence of a recruitment fee paid in Q2 2015 to seek additional sales resources.

Office expenses increased in 2016 from 2015 mainly as the result of an increased rent allocation.

Travel expenses decreased in the quarter due to decreased travel associated with sales activities. Travel will vary significantly depending on the location of customer contracts and regions served.

Equipment and maintenance expenses decreased in 2016 versus 2015 largely due to a non-recurring 2015 purchase of equipment used to demonstrate FLYHT's services to prospective customers.

Other expenses decrease was the result of lower net bad debt reserves required; in Q2 and Q3 2016 a bad debt amount written off in 2014 was recovered.

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 2016 $	Q4 2015 $	Variance $	YTD 2016 $	YTD 2015 $	Variance $
Salaries and benefits	427,797	1,058,602	(630,805)	1,589,395	1,972,362	(382,967)
Share based compensation	-	37,099	(37,099)	228,058	276,008	(47,950)
Contract labour	48,096	52,024	(3,928)	172,014	153,594	18,420
Office	80,271	61,836	18,435	289,311	257,614	31,697
Legal fees	18,701	91,212	(72,511)	166,461	160,360	6,101
Audit and accounting	41,975	24,000	17,975	141,650	85,840	55,810
Investor relations	31,768	148,810	(117,042)	153,580	399,619	(246,039)
Brokerage, stock exchange, and transfer agent fees	6,154	3,601	2,553	61,665	59,544	2,121
Travel	29,584	60,823	(31,239)	119,143	211,307	(92,164)
Equipment and maintenance	16,062	11,953	4,109	79,187	64,138	15,049
Depreciation	3,268	2,304	964	9,704	10,098	(394)
Other	15,421	21,532	(6,111)	77,488	26,469	51,019
Total	**719,097**	**1,573,796**	**(854,699)**	**3,087,656**	**3,676,953**	**(589,297)**

Administration expenses were lower in 2016 due mainly to changes in people costs, a decrease in investor relations consultants and lower travel costs. These decreases were offset by increases in audit and accounting costs and other costs associated with employee relocation expenses.

Salaries and benefits were lower in 2016 compared with 2015, mainly due to decreased employee severance costs.

Share based compensation differences in the quarter and YTD were the result of timing and volume differences in share options awarded throughout the year.

Contract Labour increased for services related to the enterprise resource planning software.

Office expenses increased throughout 2016 mainly as a result of increased subscriptions, telephone and rent costs.

Legal fees decreased in the quarter mostly due to expenses associated with the private placement in 2015 not required in 2016. YTD fees remained consistent with prior year.

Audit and accounting increases YTD are mainly due to service adjustments in the prior year.

Investor relations expense decreased due to a reduction in the number of investor relations firms engaged with the Company.

Travel decreases are the result of a reduced requirement for travel in 2016 for administrative staff. Travel for this group will vary based on the activity level of industry groups and investor relations firms.

Equipment and maintenance expenses increased mainly due to upgrade of software products.

Other expense increased YTD as the result of non-recurring employee relocation expenses.

Research, Development and Certification Engineering Expenses (Recovery)

Consist of expenses related to the improvement of existing and development of new technology and products.

Major Category	Q4 2016 $	Q4 2015 $	Variance $	YTD 2016 $	YTD 2015 $	Variance $
Salaries and benefits	467,494	474,014	(6,520)	1,562,383	1,964,388	(402,005)
Share based compensation	-	(1,635)	1,635	37,220	75,011	(37,791)
Contract labour	128,310	161,206	(32,896)	315,198	595,821	(280,623)
Office	40,566	30,212	10,354	119,530	197,618	(78,088)
Travel	12,520	6,902	5,618	54,595	52,143	2,452
Equipment and maintenance	35,335	20,364	14,971	111,077	65,038	46,039
Components	28,371	(9,541)	37,912	57,171	27,877	29,294
SRED credit	8,424	-	8,424	(211,790)	(216,708)	4,918
Depreciation	4,719	3,310	1,409	15,395	16,936	(1,541)
Other	-	4,363	(4,363)	-	24,428	(24,428)
Warranty Settlement	-	-	-	540,450	-	540,450
Total	**725,739**	**689,195**	**36,544**	**2,601,229**	**2,802,552**	**(201,323)**

Research and Development expense was lower than the prior year due to changes in people costs, and office expenditures, and other expenses partially offset by the settlement of a warranty claim. R&D costs will vary according to specific project requirements.

Salaries and benefits expended in this category decreased from 2015 to 2016, as the increased effort committed to enhancing revenue sources for ground based server applications, and enhancements made to FLYHTStream in early 2015 were not required in 2016. People costs will fluctuate with customer and industry demands for new products and enhancements of existing products, as well as differences in allocations from other cost centres to R&D.

Share based compensation decreased compared to the same period last year. A larger number of options were granted in 2016 under the share option plan, however the allocation to this group correlates with the decrease in salaries and benefits.

Contract labour has decreased in the current year. There were several contractors engaged throughout 2015 to assist in building the FLYHTASD program and certain non-recurring certification engineering on multiple time-sensitive STC's in early 2015 that was not repeated in 2016.

Office expenses were lower in 2016 compared to 2015 as a result of a decreased rent allocation.

Equipment and maintenance expenses increased both QTD and YTD in 2016 due to additional software and associated licensing fees required for research and development activities.

Components increases are the result of higher costs attributable to STCs in the year. Costs will vary depending on the number and location of STCs required.

Other expenses attributable to relocation costs in 2015 were not required in 2016.

Settlement amounts were due to the resolution of a partner's warranty claim in Q1 2016.

Net Finance Costs

Major Category	Q4 2016 $	Q4 2015 $	Variance $	YTD 2016 $	YTD 2015 $	Variance $
Interest (income)	(2,801)	-	(2,801)	(30,368)	(2,128)	(28,240)
Net foreign exchange loss (gain)	2,814	25,721	(22,907)	11,023	(237,247)	248,270
Bank service charges	17,890	6,352	11,538	37,331	22,699	14,632
Interest expense	1,089	821	268	2,736	3,917	(1,181)
Government grant accretion	46,475	42,628	3,847	178,369	163,368	15,001
Debenture interest and accretion	75,234	204,272	(129,038)	509,113	711,993	(202,880)
Debenture cost amortization	-	2,691	(2,691)	5,295	10,677	(5,382)
Net finance costs	**140,701**	**282,485**	**(141,784)**	**713,499**	**673,279**	**40,220**

Interest income was earned on higher cash balances as a result of the cash received from the private placement and on the non-exclusive license revenue.

Net foreign exchange loss will vary between periods due to fluctuations in the value of the Canadian dollar in relation to the U.S. dollar. A strengthening of the Canadian dollar has given rise to increased foreign exchange losses on U.S. dollar denominated sales and purchases, in combination with fluctuations in U.S. denominated assets and liabilities.

Government grant accretion is the recognition of the effective interest component of the SADI grant.

Debenture interest and accretion decreases were attributable to the debenture redemption in June 2016, requiring six months of interest and accretion in 2016 versus twelve months in 2015, which was partially offset by increased accretion on the convertible debenture that matured in December 2016.

Net Loss

Major Category	Q4 2016 $	Q4 2015 $	Variance $	YTD 2016 $	YTD 2015 $	Variance $
Net income (loss)	79,709	(1,203,998)	1,283,707	1,712,718	(3,891,560)	5,604,278
Net income (loss) without R&D	805,448	(514,803)	1,320,251	4,313,947	(1,089,008)	5,402,955

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 2016, 99.0% of the Company's gross sales were made in U.S. dollars, compared to 98.4% in 2015. The Company expects this to continue as 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.

Other

Recent Accounting Pronouncements

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 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).

IFRS 15 – Revenue from Contracts with Customers replaces IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers, and SIC 31 Revenue – Barter Transactions Involving Advertising Services. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The new standard applies to contracts with customers. It does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRSs (January 1, 2018).

IFRS 16 – Leases replaces IAS 17, leases. Under the new standard, more leases may come on-balance sheet for lessees, with the exception of leases with a term not greater than 12 months and leases considered to be of small value (January 1, 2019).

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

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 products, AFIRS 220 and 228, can take approximately 200 person-hours or more to install on an aircraft, depending on the aircraft type and crew. As 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; 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 recognition of 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, running and contracted for services.

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. 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 major portion of the operating and overhead costs are denominated in Canadian dollars, though certain payroll costs and a significant portion of costs of goods sold, marketing 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. 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 is a global sales presence. FLYHT has established sales agents on every continent. While some economies of the world may be in a slump or downturn, there is a place for FLYHT in growing markets. FLYHT also demonstrates to potential customers the impressive return on investment model, how quickly potential customers can improve operational efficiency, and ultimately how much AFIRS will save them in operating cost.

Dependence on key personnel and consultants

FLYHT's ability to maintain its competency in the industry is dependent on maintaining a specialty skilled workforce. The Company's DAO status, delegated by TCCA, enables a smooth implementation of STCs, required to install AFIRS on aircraft. Key staff with TCCA delegation status enable the Company to complete STCs in a timely and cost efficient manner. The Company has worked 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 fills a gap in the industry, as evidenced by sales of the AFIRS 228 throughout 2013 to 2016. Through 2014 and 2015 FLYHT was working to increase certification of the 228 from an 'E' to a 'D' level certification at the request of customers; the certification was received during Q4 2015 and is expected to increase the market for the Company's product. FLYHT released the Dragon in the Fall of 2013, expanding into the sector within the industry that required a portable satellite communications device to meet general aviation operators' need for increased connectivity. Late in 2015 the Dragon was identified as falling outside of FLYHT's core competency and the Company may look to divest the product line. The Company's success will ultimately depend on the success of its products, and future enhancements made to same.

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, Chinese, 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 infringing on FLYHT patents or claiming patent infringement by FLYHT, 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.

Transactions with Related Parties

In the third and fourth quarters of 2015, the Company entered into an agreement with a company with ownership related to an officer of FLYHT. The company supplied consulting services in recruitment and supplied a contract resource to develop tools used to enhance the Company's ground based software. No amounts relating to this party were included in either contract labour nor accounts payable for the year ended December 31, 2016 (2015: contract labour: $30,114; included in accounts payable and accrued liabilities: $30,114).

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

Contractual Arrangement

Certain of the Company's sales contracts require that, in the event the Chinese government restricts use of the Iridium satellite constellation, the Company may be required to repurchase, at discounted rates, certain AFIRS units. The Iridium license was renewed by the Chinese authorities during 2015 for a further five-year term and the likelihood of a liability under these contracts is considered to be remote.

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, 2016 and 2015, the consolidated statements of comprehensive income (loss), changes in equity 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 consolidated 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, 2016 and 2015, 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 in the consolidated financial statements, which indicates that FLYHT Aerospace Solutions Ltd. is dependent upon maintaining profitable operations and/or additional financing to fund its ongoing operations. These conditions, along with other matters as set forth in Note 2 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 Professional Accountants

April 4, 2017

Calgary, Canada

Consolidated Statement of Financial Position

	December 31, 2016 $	December 31, 2015 $
Assets		
Current assets		
Cash and cash equivalents (note 6)	709,958	1,301,955
Restricted cash (note 13)	250,000	250,000
Trade and other receivables (note 7)	2,105,385	898,166
Deposits and prepaid expenses	216,819	137,861
Inventory (note 8)	1,556,794	1,716,313
Total current assets	4,838,956	4,304,295
Non-current assets		
Property and equipment (note 9)	335,836	202,775
Intangible assets (note 10)	34,992	34,992
Inventory (note 8)	1,306,422	936,805
Total non-current assets	1,677,250	1,174,572
Total assets	6,516,206	5,478,867
Liabilities		
Current liabilities		
Trade payables and accrued liabilities (note 11)	2,163,307	2,757,707
Unearned revenue (note 12)	827,235	1,087,197
Loans and borrowings (note 13)	97,895	5,840,418
Finance lease obligations	15,553	27,922
Current tax liabilities (note 25)	10,776	4,978
Total current liabilities	3,114,766	9,718,222
Non-current liabilities		
Unearned revenue (note 12)	-	58,144
Loans and borrowings (note 13)	974,746	374,555
Finance lease obligations	-	15,555
Provisions (note 15)	549,335	263,596
Total non-current liabilities	1,524,081	711,850
Total liabilities	4,638,847	10,430,072
Equity (deficiency)		
Share capital (note 16)	57,514,646	53,895,046
Convertible debenture – equity feature (note 13)	-	222,531
Warrants (note 16)	1,139,934	-
Contributed surplus	9,017,979	8,439,136
Deficit	(65,795,200)	(67,507,918)
Total (deficiency)	1,877,359	(4,951,205)
Total liabilities and deficit	6,516,206	5,478,867

See accompanying notes to the consolidated financial statements. Going concern (note 2d).

On behalf of the board   Director – Bill Tempany   Director – Paul Takalo

Consolidated Statement of Comprehensive Income (Loss)

	For the year ended December 31	
	2016 **$**	**2015** **$**
Revenue (note 18)	14,331,191	10,457,125
Cost of sales	4,521,502	3,213,290
Gross profit	9,809,689	7,243,835
Other income (note 20)	(3,223,166)	-
Distribution expenses (note 21)	4,907,039	3,977,633
Administration expenses (note 22)	3,087,656	3,676,953
Research, development and certification engineering expenses (note 23)	2,601,229	2,802,552
Income (loss) from operating activities	2,436,931	(3,213,303)
Finance (income) (note 24)	(30,368)	(239,375)
Finance costs (note 24)	743,867	912,654
Net finance costs	(713,499)	(673,279)
Income (loss) before income tax	1,723,432	(3,886,582)
Income tax expense (note 25)	10,714	4,978
Income (loss) for the period	1,712,718	(3,891,560)
Total comprehensive income (loss) for the period	1,712,718	(3,891,560)
Income (loss) per share		
Basic and diluted loss per share (note 17)	0.01	(0.02)

See accompanying notes to the consolidated financial statements.

Consolidated Statement of Changes in Equity (Deficiency)

For the years ended December 31, 2016 and 2015

	Share Capital $	Convertible Debenture $	Warrants $	Contributed Surplus $	Deficit $	Total Equity (Deficit) $
Balance at December 31, 2015	53,895,046	222,531	-	8,439,136	(67,507,918)	(4,951,205)
Income for the period	-	-	-	-	1,712,718	1,712,718
Total comprehensive loss for the period	-	-	-	-	1,712,718	1,712,718
Contributions by and distributions to owners						
Issue of common shares	5,086,512	-	-	-	-	5,086,512
Share issue costs	(345,081)	-	-	-	-	(345,081)
Share-based payment transactions	-	-	-	362,345	-	362,345
Share options exercised	18,103	-	-	(6,033)	-	12,070
Warrants issued	(1,139,934)	-	1,139,934	-	-	-
Reclassified to Contributed Surplus	-	(222,531)	-	222,531	-	-
Total contributions by and distributions to owners	3,619,600	(222,531)	1,139,934	578,843	-	5,115,846
Balance at December 31, 2016	57,514,646	-	1,139,934	9,017,979	(65,795,200)	1,877,359
Balance at December 31, 2014	53,496,969	220,700	163,771	7,865,143	(63,616,358)	(1,869,775)
Loss for the period	-	-	-	-	(3,891,560)	(3,891,560)
Total comprehensive loss for the period	-	-	-	-	(3,891,560)	(3,891,560)
Contributions by and distributions to owners						
Issue of common shares	62,000	1,831	-	(86,378)	-	(22,547)
Issue of warrants	-	-	154,001	-	-	154,001
Share-based payment transactions	-	-	-	442,676	-	442,676
Share options exercised	183,920	-	-	(56,420)	-	127,500
Warrants exercised	152,157	-	(43,657)	-	-	108,500
Warrants expired	-	-	(274,115)	274,115	-	-
Total contributions by and distributions to owners	398,077	1,831	(163,771)	573,993	-	810,130
Balance at December 31, 2015	53,895,046	222,531	-	8,439,136	(67,507,918)	(4,951,205)

See accompanying notes to the consolidated financial statements.

Consolidated Statement of Cash Flows

	For the year ended December 31	
	2016	2015
Cash flows used in operating activities	$	$
Income (loss) for the period	1,712,718	(3,891,560)
Depreciation – property plant and equipment	66,679	56,873
Convertible debenture accretion	509,113	711,993
Payment of debenture interest	(384,873)	(496,633)
Amortization of debenture issue costs	5,295	10,677
Government grant accretion	178,369	163,368
Equity-settled share-based payment transactions	362,345	442,676
Change in inventories	(210,098)	65,752
Change in trade and other receivables	(1,149,742)	17,969
Change in prepayments	(78,958)	45,889
Change in trade and other payables	(568,465)	605,257
Change in provisions	285,738	28,577
Change in unearned revenue	(318,106)	(530,405)
Unrealized foreign exchange	29,368	(218,991)
Interest expense	2,736	3,917
Interest paid	(2,736)	(3,917)
Income tax expense	10,714	4,978
Income tax paid	(4,916)	-
Net cash from (used in) operating activities	445,181	(2,983,580)
Cash flows used in investing activities		
Acquisitions of property and equipment	(199,740)	(42,462)
Interest income	(30,368)	(2,128)
Interest received	30,368	2,128
Net cash used in investing activities	(199,740)	(42,462)
Cash flows from (used in) financing activities		
Share issue costs	(345,081)	-
Proceeds from issue of shares and warrants	5,086,512	-
Proceeds from exercise of share options and warrants	12,070	236,000
Repayment of debenture	(5,360,000)	-
Repayment of borrowings	(90,234)	(78,462)
Payment of finance lease liabilities	(27,923)	(25,974)
Net cash from (used in) financing activities	(724,656)	131,564
Net (decrease) in cash and cash equivalents	(479,215)	(2,894,478)
Cash and cash equivalents, beginning	1,301,955	3,910,962
Effect of exchange rate fluctuations on cash held	(112,782)	285,471
Cash and cash equivalents, ending	709,958	1,301,955

See accompanying notes to the 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 and as TSX.V: FLY since 2012 and has been listed on the OTCQX marketplace since June 2014 as OTCQX: FLYLF. The Company's head office is located at 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, 2016 and 2015 consist of the Company and its subsidiaries.

FLYHT is a designer and developer of products and software for, and a service provider to, the global aerospace industry. FLYHT is a provider of Iridium satellite communications, global flight tracking including live flight data recorder streaming capabilities, and aircraft health monitoring solutions. The Company supports aviation customers in different sectors including commercial, business, leasing and military operators. FLYHT's headquarters are located in Calgary, Canada with representation in the United States, China, and Australasia.

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 4, 2017.

(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) 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, 2016 the Company had positive working capital of $1,724,190, a deficit of $ 65,795,200, net income in 2016 of $1,712,718 and positive cash flow from operating activities of $445,181 for the year.

The Company has incurred significant operating losses and negative cash flows from operations over the past years. Consistent achievement of positive earnings will be necessary for the Company to maintain 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.

Given a large portion of the funds raised in Q2 2016 originated from a one-time sale of intellectual property, for the Company to continue as a going concern longer-term, it will need to maintain profitability and may require additional financing to fund ongoing operations. If general economic conditions in the industry or the financial condition of a major customer deteriorate, or revenue streams and expanding markets adversely change, 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.

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 annual 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.

2. Basis of preparation (Continued)

(e) 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, 2016, no deferred tax assets were recognized.

3. The Company records amounts for warranty based on historical warranty data. A provision is recognized upon shipment of the underlying products.

4. Consideration received for installation kits is deferred as unearned revenue and corresponding expenses are recorded as work in progress until the revenue recognition criteria for each contract has been met, at which time the full deferred amount is recognized in revenue along with the work in progress as cost of sales. Revenue from Voice and data services is recognized at the end of each month and is based on actual usage during that month.

5. Revenue from the sale of other parts is recognized when 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 Statement of Financial Position, and are recorded as revenue in the period in which such products or services are delivered.

6. 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.

3. Significant accounting policies

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

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.

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.

3. Significant accounting policies (Continued)

(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.

AFIRS finished goods consists of AFIRS units that have been assembled or purchased and are held pending sale to customers. The weighted average cost method is used to determine the carrying cost of purchased AFIRS units. The carrying cost of AFIRS units assembled by the Company includes AFIRS raw material component costs plus a standard labour allocation. 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.

(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.

The depreciation rates are as follows:

Computers	30% declining balance
Software	12 months straight line
Enterprise Reporting Software	60 months straight line
Equipment	20% declining balance
Leasehold improvements	Term of lease (7 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.

3. Significant accounting policies (Continued)

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

(i) Recognition and measurement

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 all software systems and products (including UpTime™, FLYHTASD™, FLYHTMail™, FLYHTStream™, and FLYHTFuel™). Other R&D costs include testing, patent application 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. 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.

(ii) 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.

(iii) 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.

(f) 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 and some office equipment.

(g) 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.

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.

(h) 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.

3. Significant accounting policies (Continued)

(i) 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.

(j) Provisions

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

(i) Warranties

The Company warrants that the AFIRS products shall be free of defects during the term of each agreement. 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.

(k) 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 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.

3. Significant accounting policies (Continued)

(ii) Non-financial assets (Continued)

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.

(l) Revenue

(i) AFIRS sales

AFIRS fees from service agreements are deferred as revenue and corresponding expenses are recorded as an asset (installations in progress). When the revenue recognition criteria for each contract has been met, the full deferred amount is recognized in revenue along with the installations in progress as cost of sales.

(ii) Voice and data services

Revenue from Voice and data services 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 received for the use of FLYHT's assets (i.e., trademarks, patents, and software) are recognized on an accrual basis when terms of an executed sales agreement have been met, recovery of the consideration is probable, and the amount of revenue can be measured reliably.

(m) 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.

(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 the employee's relationship with the Company is terminated prior to expiry.

3. Significant accounting policies (Continued)

(n) 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, or if the consultant's relationship with the Company is terminated prior to expiry.

(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.

(o) 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).

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.

(p) 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.

3. Significant accounting policies (Continued)

(q) 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.

(r) 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 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 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).

IFRS 15 – Revenue from Contracts with Customers replaces IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers, and SIC 31 Revenue – Barter Transactions Involving Advertising Services. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The new standard applies to contracts with customers. It does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRSs (January 1, 2018).

IFRS 16 – Leases replaces IAS 17, Leases. Under the new standard, more leases may come on-balance sheet for lessees, with the exception of leases with a term not greater than 12 months and leases considered to be of small value (January 1, 2019).

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 debentures, the market rate of interest is determined by reference to similar liabilities that do not have a conversion feature.

(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, 2016 $	December 31, 2015 $
Trade receivables	2,086,572	874,112
Non-trade receivables and accrued receivables	18,813	24,054
Total	**2,105,385**	**898,166**

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, 2016 $	December 31, 2015 $
AFIRS raw materials	1,190,659	946,082
AFIRS finished goods	1,205,068	1,047,415
Installations in progress	467,489	659,621
Balance	2,863,216	2,653,118
Less current portion	(1,556,794)	(1,716,313)
Non-current portion	**1,306,422**	**936,805**

In 2016 AFIRS raw materials and changes in AFIRS finished goods and installations in progress recognized as cost of sales amounted to $3,075,401 (2015: $2,289,676). Included in this amount was a write down of inventories amounting to $112,449 in 2016 (2015: $66,196) resulting from a review of slow moving inventory parts. All inventories are pledged as security for the bank loan.

9. Property and equipment

2016	Computers and Software $	Equipment $	Leasehold improvements $	Total $
Cost				
Balance at January 1	510,911	265,370	44,121	820,402
Additions	194,352	1,056	4,332	199,740
Balance at December 31	705,263	266,426	48,453	1,020,142
Accumulated Depreciation				
Balance at January 1	420,379	184,879	12,369	617,627
Depreciation for the year	43,746	16,630	6,303	66,679
Balance at December 31	464,125	201,509	18,672	684,306
Carrying Amounts				
At January 1	90,532	80,491	31,752	202,775
At December 31	241,138	64,917	29,781	335,836

2015	Computers and Software $	Equipment $	Leasehold improvements $	Total $
Cost				
Balance at January 1	491,800	242,019	44,121	777,940
Additions	19,111	23,351	-	42,462
Balance at December 31	510,911	265,370	44,121	820,402
Accumulated Depreciation				
Balance at January 1	385,118	169,570	6,066	560,754
Depreciation for the year	35,261	15,309	6,303	56,873
Balance at December 31	420,379	184,879	12,369	617,627
Carrying Amounts				
At January 1	106,682	72,449	38,055	217,186
At December 31	90,532	80,491	31,752	202,775

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, 2016, the net carrying amount of leased property and equipment was $47,367 (2015: $65,033).

As of December 31, 2016, all property and equipment is pledged as security for the bank loan (note 13).

FLYHT did not enter into any new lease agreements in 2016.

10. Intangible assets

The intangible asset balance of $34,992 at December 31, 2016 (December 31, 2015: $34,992) is the value of the license with Bombardier that 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.

All intangible assets are pledged as security for the bank loan.

11. Trade payables and accrued liabilities

	December 31, 2016	December 31, 2015
	$	$
Trade payables	769,261	1,037,011
Non-refundable customer deposits	317,899	1,020,675
Compensation and statutory deductions	873,526	570,659
Accrued liabilities	202,621	129,362
Total	**2,163,307**	**2,757,707**

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

12. Unearned revenue

Unearned revenue classified as current consists of revenue on sales type agreements that will be recognized when customer acceptance of the AFIRS Solution has been obtained. The current portion is expected to be recognized as revenue within the next year.

All amounts recorded in unearned revenue are non-refundable.

	December 31, 2016	December 31, 2015
	$	$
Balance January 1	1,145,341	1,675,746
AFIRS sales: shipped	3,384,763	2,597,785
AFIRS sales: revenue recognized	(3,703,703)	(3,131,261)
Voice and data services: prepaid	19,866	19,033
Voice and data services: revenue recognized	(19,032)	(15,962)
Balance December 31	827,235	1,145,341
Less current portion	827,235	1,087,197
Non-current portion	**-**	**58,144**

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 (2015: $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, 2016 and 2015, the facility had not been drawn.

Government loans

The Technology Partnerships Canada ("TPC") loan was non-interest bearing and unsecured. The loan was repayable annually, based on 15% of the initial contribution when the Company 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. The obligation under TPC was fulfilled in 2015.

On November 9, 2016, the Company signed a contribution agreement with Western Economic Diversification Canada for a Western Innovation initiative (WINN) loan, to support plans for technology development in the air and ground components of the Company's products. Under the terms of the agreement, a repayable unsecured WINN contribution to the value of the lesser of 50% of the eligible project costs to March 31, 2019 or $2,350,000 will be received. The amount is repayable over five years commencing January 1, 2020. At December 31, 2016, the Company had not yet received a contribution.

Under SADI, the Company has, at December 31, 2016, an outstanding repayable balance of $1,730,582, compared to $1,820,816 at December 31, 2015. The amount is repayable over 15 years on a stepped basis commencing April 30, 2014. The initial payment on April 30, 2014 was 3.5% of the total contribution received and the payment increases yearly by 15% until April 30, 2028 when the final payment is 24.5% of the total contribution received. A summary of the SADI loan carrying value as at December 31, 2016 and 2015 and changes during these years is presented below.

	2016 $	2015 $
Balance January 1	984,507	899,600
Interest accretion	178,368	163,369
Repayment	(90,234)	(78,462)
Balance December 31	1,072,641	984,507
Less current portion	103,768	90,234
Non-current portion	**968,873**	**894,273**

A summary of the SADI outstanding payable balance as at December 31, 2016 and 2015 and changes during these years is presented below.

	2016 $	2015 $
Balance January 1	1,820,816	1,899,278
Repayment	(90,234)	(78,462)
Balance December 31	**1,730,582**	**1,820,816**

13. Loans and borrowings (Continued)

Convertible debentures

The debenture issued December 23, 2010 originally had a face value of $3,159,000 and was set to mature on December 23, 2014. 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 was classified as equity and had an original value of $231,318 based on an exercise price of $0.40. The associated debenture warrants had an exercise price of $0.75, were exercisable by December 23, 2014, and had an original carrying value of $163,771.

On December 22, 2014 approval was received to extend the maturity date of the debenture from four to six years. The debentures were convertible into common shares at a conversion rate of $0.40 per share at any time up to December 23, 2015. The associated debenture warrants were also extended to December 23, 2015.

On December 15, 2015 approval was received to lower the warrant exercise price to $0.20, extend the conversion feature to December 23, 2016, and lower the conversion price to $0.25.

The debenture face value of $3,039,000 was redeemed in full plus accrued interest on December 23, 2016 (face value of debenture outstanding on December 31, 2015: $3,039,000). The conversion feature had a carrying value of $222,531 as at December 31, 2015. The debenture warrants expired on December 23, 2015.

The debentures were secured against all personal property of the Company, with the exception of the Company's intellectual property, and were subordinated in right of payment to all existing and future bank and/or governmental indebtedness of the Company. The debenture, until redemption, bore interest at a rate of 8% per annum, accrued and paid annually in arrears commencing December 31, 2011.

Redeemable debentures

In two tranches on April 18 and May 28, 2013, the Company issued an aggregate $2,110,000 debentures in a debt offering. The debentures matured on June 30, 2016 and bore interest at a rate of 12% per annum on the contributed amounts, 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 owed, 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 were not listed on any stock exchange and not convertible into common shares. The debentures were secured against all personal property of FLYHT, including FLYHT's intellectual property and were 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. The debentures were redeemed on June 30, 2016 for $2,321,000 which includes the 10% premium, plus accrued interest.

	2016 **$**	**2015** **$**
SADI	1,072,641	984,507
Debenture payable	-	2,269,545
Convertible debenture payable	-	2,960,921
Balance December 31	1,072,641	6,214,973
Less current portion	(97,895)	(5,840,418)
Non-current portion	**974,746**	**374,555**

14. Operating leases

Operating lease rentals are payable as follows:

	Premises **$**
2017	458,145
2018	462,678
2019	462,678
2020	462,678
2021	77,113
Total	**1,923,292**

Operating lease payments made in 2016 totaled $453,900 (2015: $426,539).

15. Provisions

Product warranty	2016 $	2015 $
Balance January 1	263,596	235,019
Provision made during the period	302,654	72,735
Provision used during the period	(16,915)	(44,158)
Balance December 31	**549,335**	**263,596**

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, 2015	172,180,135	53,496,969
Exercise of employee options	600,000	183,920
Exercise of warrants	542,500	152,157
Debenture conversions	155,000	62,000
Balance December 31, 2015	173,477,635	53,895,046
Exercise of employee options	54,050	18,103
Warrants issued	-	(1,139,934)
Issue of common shares	33,910,081	4,741,431
Balance December 31, 2016	**207,441,766**	**57,514,646**

On May 12, 2016, the Company closed a private placement, issuing 33,910,081 units at a price of $0.15 per unit, for total proceeds of $5,086,512. Each unit consisted of one common share and one-half of one share purchase warrant. Each warrant entitles the holder to purchase one additional common share of the Company for a period of 24 months from the issuance of the units at a price of $0.25. Agent's fees totaled $317,275. A total of 2,115,167 agent's warrants were also issued, exercisable into one unit at $0.15 per unit within 24 months from the closing date. All of the common shares and warrants issued pursuant to the private placement were subject to a 4-month hold period.

In 2016 option exercises resulted in the Company issuing a total of 54,050 shares for total proceeds of $12,070, including:

a) 24,050 options were exercised at $0.19 per share for proceeds of $4,570
b) 30,000 options were exercised at $0.25 per share for proceeds of $7,500

16. Capital and other components of equity (Continued)

Stock option plan

The Company grants stock options to its directors, officers, employees and consultants.

In the second quarter of 2016 the Company granted 3,454,817 stock options to employees, officers and directors under the stock option plan. The stock options will expire December 31, 2019, and have an exercise price of $0.19 per share. The Company also granted 200,000 options to a consultant which are exercisable at $0.185 per share and vested in equal portions quarterly over the year.

In the fourth quarter of 2016 the Company granted 50,000 stock options to an employee under the stock option plan. The stock options will expire December 31, 2019 and have an exercise price of $0.185 per share.

The Company has a policy of reserving up to 10% of the outstanding common shares for issuance to eligible participants. As at December 31, 2016, there were 20,744,177 (2015: 17,347,764) common shares reserved for this purpose.

All outstanding options to employees vested immediately at the grant date and were granted at an exercise price not less than fair market value of the stock on the date of issuance. No options remained unvested as at December 31, 2016 and 2015.

A summary of the Company's outstanding and exercisable stock options as at December 31, 2016 and 2015 and changes during these years is presented below.

	2016		2015	
	Number of options	**Weighted average exercise price $**	**Number of options**	**Weighted average exercise price $**
Outstanding, January 1	8,736,300	0.32	7,802,250	0.34
Options granted	3,704,817	0.19	3,778,050	0.23
Options exercised	(54,050)	0.21	(600,000)	0.23
Options expired	(3,753,700)	0.33	(2,244,000)	0.27
Outstanding and Exercisable, December 31	8,633,367	0.26	8,736,300	0.32

Weighted average life remaining for the options outstanding and exercisable is 2.1 years. The exercise prices for options outstanding at December 31, 2016 were as follows:

	All options		Exercisable options	
Exercise price:	**Number**	**Weighted average remaining contractual life (years)**	**Number**	**Weighted average remaining contractual life (years)**
$0.165	475,000	2.0	475,000	2.0
$0.185	250,000	2.2	250,000	2.2
$0.190	3,380,567	3.0	3,380,567	3.0
$0.250	2,345,050	2.0	2,345,050	2.0
$0.400	1,982,750	1.0	1,982,750	1.0
$0.420	50,000	1.0	50,000	1.0
$0.530	150,000	1.0	150,000	1.0
Total	**8,633,367**	**2.1**	**8,633,367**	**2.1**

16. Capital and other components of equity (Continued)

The weighted average fair value of the options granted during the year that were valued using the Black-Scholes option pricing model was $0.10 (2015: $0.12). The fair value of the options granted and valued using the Black-Scholes option pricing model were valued with the following weighted average assumptions:

	2016	2015
Risk-free interest rate	0.61%	0.75%
Expected life (years)	3.57	3.37
Volatility in the price of the Company's common shares	73%	76%
Dividend yield rate	0.00%	0.00%

Warrants

	Number	Weighted average exercise price $	Value $
Outstanding January 1, 2015	3,948,750	0.75	163,771
Warrants extended	-	-	154,001
Warrants exercised	(542,500)	0.20	(43,657)
Warrants expired	(3,406,250)	0.20	(274,115)
Outstanding December 31, 2015	-	-	-
Warrants issued	16,955,041	0.25	886,748
Agent warrants issued	2,115,167	0.15	253,186
Warrants exercised	-	-	-
Warrants expired	-	-	-
Outstanding December 31, 2016	**19,070,208**	**0.23**	**1,139,934**

On May 12, 2016, the Company closed a private placement, issuing 33,910,081 units consisting of one common share and one-half of one share purchase warrant. 16,955,041 warrants were issued with each whole warrant entitling the holder to purchase one additional common share of the Company for a period of 24 months from the issuance at a price of $0.25 per share. 2,115,167 agent's warrants were also issued, exercisable into one unit at $0.15 per unit within 24 months from the closing date. All of the common shares and warrants issued pursuant to the private placement were subject to a 4-month hold period.

17. Earnings per share

Basic earnings per share

The calculation of basic and diluted earnings per share for the year ended December 31, 2016 was based on a weighted average number of common shares outstanding of 195,070,653 (basic) and 195,419,579 (diluted) (2015 basic and diluted: 172,423,488). The calculation of diluted earnings per share did not include stock options of 8,282,947 (2015: 8,736,300), 18,507,690 warrants (2015: nil) and convertible debentures of nil (2015: 7,597,500) because they would be anti-dilutive.

18. Revenue

	For the year ended December 31	
	2016	2015
	$	$
Voice and data services	4,375,138	3,986,813
AFIRS sales	3,931,607	3,372,421
Parts sales	5,808,491	2,932,100
Services	215,955	165,791
Total	14,331,191	10,457,125

Voice and data services include fees for communications usage. AFIRS sales includes revenue from AFIRS and Dragon hardware sales along with the parts required to install the unit. Parts sales includes spare AFIRS units, spare installation kit parts, modems with related license fees and Underfloor Stowage Units. Services include technical, repair and installation support services.

19. 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	
	2016	2015
	$	$
North America	9,007,719	5,754,913
South / Central America	658,319	266,203
Africa / Middle East	1,273,655	1,432,230
Europe	349,684	542,037
Australasia	719,763	694,992
Asia	2,322,051	1,766,750
Total	14,331,191	10,457,125

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

Major customers

Revenues from the three largest customers represent approximately 47.6% of the Company's total revenues for the year ended December 31, 2016 (2015: 42.9%).

20. Other Income

The Company granted a non-exclusive license to use certain of its intellectual property to a technology company for a license fee of $3,223,166 in Q2 2016.

21. Distribution expenses

	For the year ended December 31	
	2016 $	2015 $
Salaries and benefits	3,255,326	1,983,579
Stock based compensation	97,067	91,658
Contract labour	498,106	829,298
Office	416,733	328,855
Travel	562,645	472,078
Equipment & maintenance	25,006	40,216
Depreciation	41,580	29,840
Marketing	113,879	100,169
Other	(103,303)	101,940
Total	4,907,039	3,977,633

22. Administration expenses

	For the year ended December 31	
	2016 $	2015 $
Salaries and benefits	1,589,395	1,972,362
Stock based compensation	228,058	276,008
Contract labour	172,014	153,594
Office	289,311	257,614
Legal fees	166,461	160,360
Audit and accounting	141,650	85,840
Investor relations	153,580	399,619
Brokerage, stock exchange, and transfer agent fees	61,665	59,544
Travel	119,143	211,307
Equipment and maintenance	79,187	64,138
Depreciation	9,704	10,098
Other	77,488	26,469
Total	3,087,656	3,676,953

23. Research and development expenses

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

	For the year ended December 31	
	2016 $	2015 $
Salaries and benefits	1,562,383	1,964,388
Stock based compensation	37,220	75,011
Contract labour	315,198	595,821
Office	119,530	197,618
Travel	54,595	52,143
Equipment and maintenance	111,077	65,038
Components	57,171	27,877
SRED tax credit	(211,790)	(216,708)
Depreciation	15,395	16,936
Other	-	24,428
Warranty settlement	540,450	-
Total	2,601,229	2,802,552

24. Finance income and finance costs

	For the year ended December 31	
	2016 $	2015 $
Interest income on bank deposits	30,368	2,128
Net foreign exchange gain	-	237,247
Finance income	30,368	239,375
Bank service charges	37,331	22,699
Net foreign exchange loss	11,023	-
Interest expense	2,736	3,917
Government grant interest expense	178,369	163,368
Debenture interest expense and accretion	509,113	711,993
Debenture issuance cost amortization	5,295	10,677
Finance costs	743,867	912,654

25. Income tax expense

Current Tax Expense

	2016 $	2015 $
Current income tax expense	10,714	4,978
Deferred income tax expense	-	-
	10,714	4,978

Deferred Tax Expense

Unrecognized deferred tax assets

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

	2016 $	2015 $
Capital assets	163,565	145,562
Intangibles	71,257	77,332
Inventory	4,880	2,162
Non-capital loss carry-forwards	9,445,413	12,071,922
Share issue costs	74,706	20,598
Scientific research and experimental development expenditures	8,150,696	7,535,586
	17,910,517	19,853,162

The Company has non-capital losses for income tax purposes of approximately $34,462,323 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 $
2026	761,961
2027	5,596,948
2028	6,997,140
2029	2,791,748
2030	6,596,636
2031	4,351,802
2032	2,313,225
2033	1,464,723
2034	1,890,509
2035	1,697,631
Total	34,462,323

25. Income tax expense (Continued)

Reconciliation of effective tax rate

	2016 $	2015 $
Income (loss) before tax	1,723,432	(3,891,560)
Tax Rate	27.0%	26.0%
Expected income tax expense (recovery)	465,327	(1,011,806)
True up from prior year	(225,317)	(1,241,807)
Non-deductible expenses	13,431	11,582
Stock based compensation	94,209	115,096
Change in unrecognized temporary differences	(336,936)	2,131,913
	10,714	4,978

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.

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 38.2% (2015: 28.5%) of the Company's 2016 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 be required to transact with FLYHT only on a prepayment basis. To further minimize credit exposure, the sale of many AFIRS Solutions requires payment in advance of any product shipment. Additionally, credit insurance has been obtained on select customers whose balances have not been prepaid. 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, 2016	0-30 days $	31-60 days $	61-90 days $	91+ days $	Total $
Accounts receivable	1,872,962	81,199	23,010	710,926	2,688,097
Impairment	-	-	-	(582,712)	(582,712)
Net receivable	1,872,962	81,199	23,010	128,214	2,105,385

December 31, 2015	0-30 days $	31-60 days $	61-90 days $	91+ days $	Total $
Accounts receivable	865,067	39,128	(5,953)	537,393	1,435,635
Impairment	-	-	-	(537,469)	(537,469)
Net receivable	865,067	39,128	(5,953)	(76)	898,166

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, 2016 and 2015 was:

	2016 $	2015 $
Balance, January 1	537,469	391,855
Provision	45,243	165,164
Amounts written off	-	(19,550)
Balance, December 31	582,712	537,469

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, maintaining a conservative capital structure, prudently managing its credit risks, and by maintaining its relationship with the capital markets to meet any near-term liquidity requirements.

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

December 31, 2016	< 2 months $	2-12 months $	1-2 years $	2-5 years $	> 5 years $	Total $
Accounts payable	769,261	-	-	-	-	769,261
Compensation and statutory deductions	371,303	349,223	108,000	45,000	-	873,526
Finance lease liabilities	4,970	10,826	-	-	-	15,796
Accrued liabilities	83,497	82,206	11,658	25,259	-	202,620
Loans and borrowings	-	103,768	119,333	476,546	1,030,935	1,730,582
Total	1,229,031	546,023	238,991	546,805	1,030,935	3,591,785

December 31, 2015	< 2 months $	2-12 months $	1-2 years $	2-5 years $	> 5 years $	Total $
Accounts payable	1,034,319	2,692	-	-	-	1,037,011
Compensation and statutory deductions	84,525	270,134	108,000	108,000	-	570,659
Finance lease liabilities	4,970	24,849	15,794	-	-	45,613
Accrued liabilities	39,215	61,650	9,715	18,782	-	129,362
Loans and borrowings	-	5,840,418	103,768	414,386	1,212,427	7,570,999
Total	1,163,029	6,199,743	237,277	541,168	1,212,427	9,353,644

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 $141,823 (2015: $102,932) and a strengthening of the Canadian dollar would decrease net earnings by approximately $141,823 (2015: $102,932).

The Company mitigates its currency 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, 2016, working capital denominated in U.S. dollars was approximately positive $1,410,075 (2015: positive $90,053). As a result, a 1% weakening of the Canadian dollar would increase net earnings by approximately $14,101 (2015: $901) and a strengthening of the Canadian dollar would decrease net earnings by approximately $14,101 (2015: $901).

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.

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, 2016 and 2015 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 due to the short-term nature of the instruments.

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. Related parties

In the third and fourth quarters of 2015, the Company entered into an agreement with a company with ownership that is related to an officer of FLYHT. The company supplied consulting services in recruitment and supplied a contract resource to develop tools used to enhance the Company's ground based software. No similar services were contracted during 2016.

	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**	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**
	$	**$**	**$**	**$**	**$**	**$**
Total	-	30,114	-	41,114	-	30,114

All of the transactions with the related parties were at exchange amounts that approximated fair value. All other transactions with related parties were normal business transactions related to employee and director positions within the Company. These transactions included expense reimbursements for business travel and expenses paid by the related party, and were measured at exchange amounts paid to a third party as 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 executive team.

In addition to salary and variable compensation, the Company also provides non-cash benefits to key management personnel. Compensation for this group comprised:

	2016 $	2015 $
Salary	1,071,619	1,299,019
Director fees	215,869	167,494
Variable compensation	161,000	368,870
Retiring allowance	-	324,000
Share-based payments	226,813	305,855
Short-term employee benefits	190,737	123,858
Total	1,866,038	2,589,096

Directors of the Company control 3.8% (2015: 2.6%) 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%

28. Contractual Arrangement

Certain of the Company's sales contracts require that, in the event the Chinese government restricts use of the Iridium satellite constellation, the Company may be required to repurchase, at discounted rates, certain AFIRS units. The Iridium license was renewed by the Chinese authorities during 2015 for a further five-year term and the likelihood of a liability under these contracts is considered to be remote.

CORPORATE INFORMATION

REGISTRAR AND TRANSFER AGENT

Computershare Trust Company of Canada
Telephone: 1-403-267-6800
Online: Investor Centre – contact us section
www.computershare.com

SHARE LISTING

Shares are traded on the TSX Venture Exchange and the OTCQX Marketplace

Ticker Symbols: TSX: FLY
and OTCQX: FLYLF

INVESTOR RELATIONS

Email: investors@flyht.com
Telephone: 1-403-250-9956
Toll free: 1-866-250-9956
www.flyht.com

The Howard Group Inc.
Dave Burwell
Email: dave@howardgroupinc.com
Telephone: 1-403-410-7907
www.howardgroupinc.com

DIRECTORS

Bill Tempany	Chairman, FLYHT Aerospace Solutions Ltd.
John Belcher	Former Chairman and Chief Executive Officer, ARINC Inc.
Mike Brown	Partner, Geselbracht Brown
Barry Eccleston	President, Airbus Americas, Inc.
Jacques Kavafian	Director
Doug Marlin	President, Marlin Ventures Ltd.
Jack Olcott	President, General Aviation Company
Mark Rosenker	United States Air Force (retired)
Paul Takalo	Director

OFFICERS

Thomas R. Schmutz	Chief Executive Officer
Nola M. Heale	Chief Financial Officer
Derek Graham	Chief Technical Officer
David Perez	Vice President Sales and Marketing
Matieu Plamondon	Vice President Operations and Customer Fulfillment

AUDITOR

KPMG LLP	Calgary, Alberta

LEGAL COUNSEL

Chris Croteau	Tingle Merrett LLP, Calgary, Alberta

HEAD OFFICE

300E, 1144 - 29 Avenue NE
Calgary, Alberta T2E 7P1

"FLYHT EXPECTS 2017 TO ALSO BRING NEW OPPORTUNITIES GIVEN OUR DEMONSTRATED, COMMERCIALLY AVAILABLE EXPERTISE IN REAL-TIME ACCESS TO FLIGHT RECORDER DATA."

FLYHT AEROSPACE SOLUTIONS LTD.

300 E, 1144 – 29 Ave NE
Calgary, AB, T2E 7P1
Canada

Phone: 1.866.250.9956
Fax: 1.403.291.9717
www.flyht.com

FLYHT™
INSIGHT • ACTION • CONTROL