ANNUAL REPORT

FLYHT AEROSPACE SOLUTIONS LTD.

2017

FLYHT™

INSIGHT • ACTION • CONTROL

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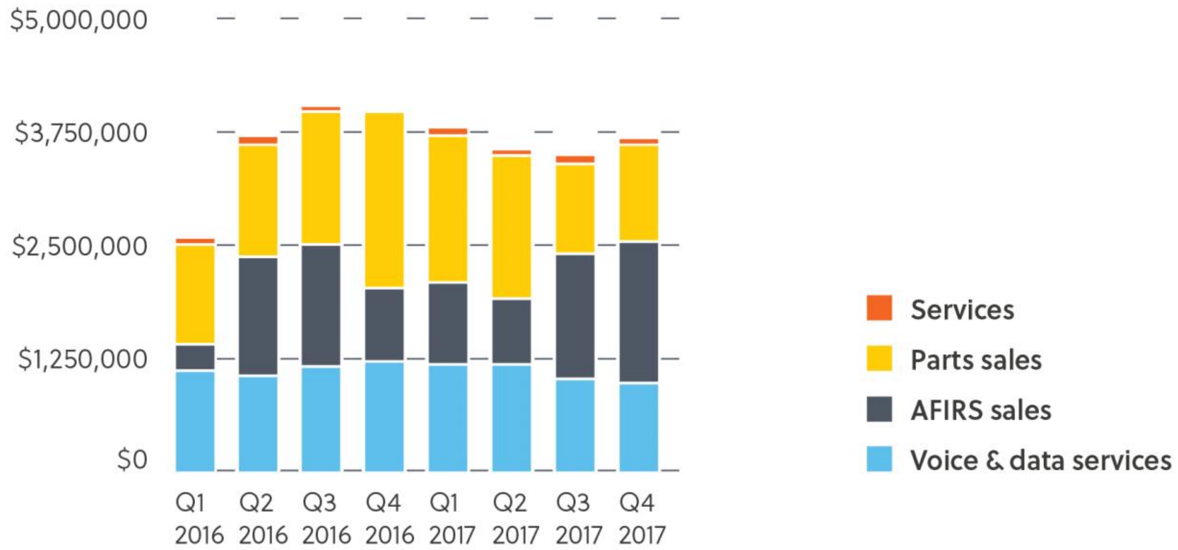
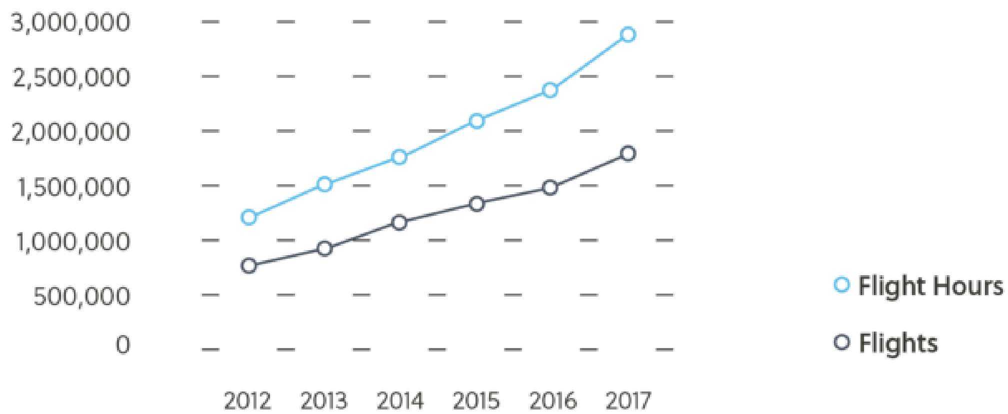
Commonly used Financial Terms and Aviation Acronyms

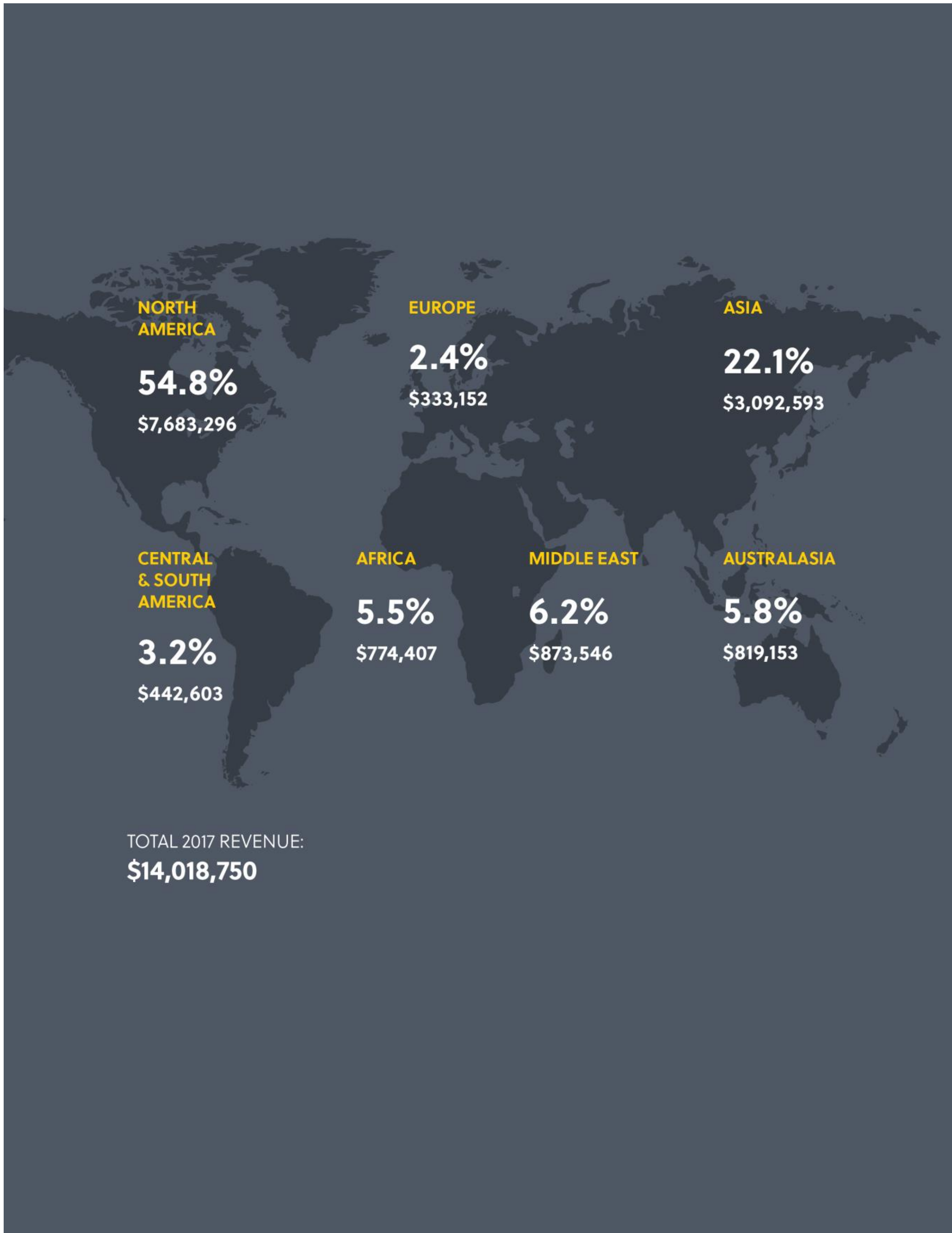
ACARS: Aircraft Communications Addressing and Reporting System
AFIRS™: Automated Flight Information Reporting System
ANAC: National Civil Aviation Agency of Brazil
CAAC: Civil Aviation Administration of China
DAO: Design Approval Organization
DGAC: Direccion General de Aeronautica Civil (Mexico's certification organization)
EASA: European Aviation Safety Agency
EBITDA: Earnings before interest, taxes, 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
HKCAD: Hong Kong Civil Aviation Department
IATA: International Air Transport Association
ICAO: International Civil Aviation Organization
IFRS: International Financial Reporting Standards
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
SAAU: State Aviation Authority of Ukraine
SFP: Statement of Financial Position
STC: Supplemental Type Certificate
TCCA: Transport Canada Civil Aviation
WINN: Western Innovation Initiative
YTD: Year-to-date

REVENUE SOURCES



FLIGHT HOURS & FLIGHTS




NORTH
AMERICA
54.8%
$7,683,296
EUROPE
2.4%
$333,152
ASIA
22.1%
$3,092,593
CENTRAL
& SOUTH
AMERICA
3.2%
$442,603
AFRICA
5.5%
$774,407
MIDDLE EAST
6.2%
$873,546
AUSTRALASIA
5.8%
$819,153
TOTAL 2017 REVENUE:
$14,018,750

LETTER TO SHAREHOLDERS

In 2017, FLYHT took steps to prepare for future growth and establish strategic partnerships with large industry players. FLYHT saw growth in the backlog of Automated Flight Information Reporting System (AFIRS™) kits and services and this resulted in a 25% increase of shipments in 2017. FLYHT reorganized both our facility and our team. Looking toward 2018, we have continuing trials with Boeing and Inmarsat and actively pursue partnerships with Original Equipment Manufacturers (OEMs), which we feel will lead to revenue growth and improved financial performance.

Financially, FLYHT's revenues for 2017 were within 2% of what the Company posted in 2016 despite being significantly lower in the Parts revenue category. This category includes revenues from spare parts, but the largest component is the license fees that FLYHT receives from the OEM shipment of AFIRS units to the A320/A330 production line. Overall, Parts revenue was down 15% compared to last year, but this decline was largely offset by an increase in AFIRS hardware revenue of 17% over 2016. In fact, quarterly AFIRS hardware revenue was up significantly, with an increase of 76% more than in Q4 2016! We finished the year on a positive note with the shipment of 19 AFIRS units in December and 90 units for the year, which represents an increase of 25% over the prior year.

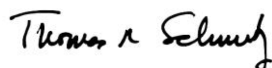
FLYHT has been expecting the revenue for AFIRS hardware to increase due to the significant backlog that the Company has been building these past three years. Since airlines normally install AFIRS during a regularly scheduled "C Check", a 20 to 24-month (or after a specified number of flight hours) maintenance check, it can take some time to equip a fleet because the fleet operator must cycle their equipment through the check. FLYHT's backlog of undelivered AFIRS hardware and contracted, but undelivered recurring data services had grown to over $27M at the end of 2017. FLYHT invested in the shipping/receiving/kitting area of the Calgary facility in October 2017 and tripled its size because we anticipated an increase in AFIRS hardware shipments based upon this growing sales backlog. The resulting facility will accommodate much higher volumes of AFIRS kit shipments than we were able to accomplish within the previous area. This made shipping during the fourth quarter, our second highest AFIRS hardware revenue quarter in history, much more efficient for the operations team.

FLYHT made important organizational changes in 2017. In the second half of the year, we reorganized the day-to-day operations including procurement/manufacturing, account management, customer and aircraft certification engineering, and software development teams into an organization run by the COO, Matieu Plamondon. This allowed FLYHT to create a Strategic Product Management team led by our CTO, Derek Graham. This was necessary to address the strategic opportunities from Boeing and Inmarsat that were announced in the year. The Strategic Product Management team also helps FLYHT plan and execute our next generation products, which we will begin investing in this year, to enhance our unique position in the industry as the leading provider of real-time data streaming technology. As part of this reorganization, we also converted several contractor positions to in-house staff and grew the sales team modestly to be better prepared as a Company for future opportunities. FLYHT hired industry veteran Steve Newell as VP Business Development to help mature new opportunities with OEMs, airframers and other technology partners so that we could focus our VP Sales and Marketing, David Perez and his sales team on selling AFIRS and UpTime™ voice and data services to airlines and lessors.

While we fell short of our financial targets in 2017, we did have several accomplishments. We signed a contract with Azur in the Middle East, Bahamasair in the Bahamas, an airline in South Korea, a military logistics company and an aircraft lessor. In addition, FLYHT signed contracts with four new Chinese carriers, bringing the number of carriers we serve in China to 23. We also accomplished AS9100C quality registration and revised processes and procedures for the AS9100D transition audit in January. In 2017, the Company also received an important patent from the United States Patent and Trademark Office for FLYHT's emergency data streaming technology which has been initially enabled in a commercial software product called FLYHTStream™. This patent has also been issued in China and is pending in several other countries. This intellectual property can form the basis for industry to meet the "Timely Access to Flight Data" requirements which are levied upon the industry by the International Civil Aviation Organization (ICAO) for new aircraft in 2021. Several of our trials are designed to validate that FLYHT's solution will satisfy this mandate, which is intended to overcome the problems associated with no access to flight data, such as the tragic loss of Malaysian Air MH370 or the two year wait to access it, as evidenced by Air France AF447. FLYHT added many Supplemental Type Certificates during the year, increasing this valuable library to more than 90 entries.

FLYHT is focused on multiple initiatives in 2018. These include the fantastic opportunity to participate as a partner on the Boeing ecoDemonstator Program where we are demonstrating state-of-the-art aircraft tracking, locating and data recovery technologies using our AFIRS and UpTime™ Cloud. We are excited to be the only Company chosen to demonstrate these capabilities for the program. Similarly, we have announced a trial partnership with Inmarsat, the largest provider of aviation flight-deck Satcom bandwidth, to help them achieve their "Black Box in the Cloud" vision of always-on streaming in the Swiftbroadband-Safety spectrum. We are pursuing other trials where we are working closely with the airlines to tailor our system to solve specific problems and we are integrating our solution with technology from other OEM equipment providers which we believe will bring increased value to our combined solutions.

I feel very excited about the prospects for the Company as we move into 2018. We have an excellent team that is focused on meaningful opportunities. Thank you for your continued support of FLYHT!



Thomas R. Schmutz
Chief Executive Officer

MANAGEMENT DISCUSSION & ANALYSIS

This management discussion and analysis ("MD&A") is as of April 10, 2018 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, 2017 and 2016 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, 2017 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). 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, deposits and prepaid expenses, and the current portion of unearned revenue net of installations in progress. 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, income tax, depreciation and amortization of assets. 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 forward-looking 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's mission is to improve aviation safety, efficiency and profitability. The Company is located in Calgary, Canada; publicly traded as: FLY:TSX.V; FLYLF:OTCQX. Airlines, leasing companies, fractional owners and original equipment manufacturers have installed the Automated Flight Information Reporting System (AFIRS™), developed and produced by FLYHT, on their aircraft to capture, process and stream aircraft data with real-time alerts. AFIRS sends this information through satellite networks to the UpTime™ Cloud data center, which provides aircraft operators with direct insight into the operational status and health of their aircraft and enables them to take corrective action to maintain the highest standard of operational control.

AFIRS™ and UpTime™

AFIRS is a device installed on aircraft that captures and monitors hundreds of essential functions from the aircraft including data recorded by the black box. AFIRS sends this information through the Iridium satellite network to FLYHT's UpTime 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 and flight tracking 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 received regulatory certification for installation of AFIRS in a large number of widely used commercial aircraft brands and models (see systems approvals section). 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 voice 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 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 is happening onboard the aircraft. FLYHT received a U.S. patent for the data streaming technology in 2017.

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. It also provides the aircraft operator with the ability to enable FLYHTStream on their airborne aircraft at any time.

FLYHTHealth™

Consists of automated engine trend reporting and real-time engine and airframe exceedance monitoring and remote, real-time diagnostics. Automated 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 reporting system once a problem has been detected. The intent is then for the airline to 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 "turn-time", 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.

FLYHTFuel™

A powerful program that focuses attention on areas of greatest savings potential to provide information necessary to make decisions about the operation. Some 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.

Underfloor Stowage Unit

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

System Approvals

FLYHT is a TCCA Approved Manufacturer, an 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). FLYHT is now AS9100 certified with the registrar SAI Global. 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 is currently pursuing STC validations from the SAAU and the HKCAD.

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.

STC Chart

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**
			I							**Airbus A300**
A										**Airbus A330**
	A		A						A	**ATR42 -300**
	A		I						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	A	A	A		A	**Boeing B737 -300, -400, -500**
A		A		A		A				**Boeing B737 -600**
A	A	A	A	A	A	A	A		A	**Boeing B737 -700, -800**
			A				I			**Boeing B737 -900ER**
	A						I			**Boeing 747-200**
A	A	A	A	A	A	A	A			**Boeing 757 -200**
A	A	A	A	A	A	A	A			**Boeing 767 -200, -300**
	A		A							**Boeing B777**
A	A*	A	A*	A	A*					**Bombardier DHC 8 -100, -200, -300 *Avmax**
A	A						I			**Bombardier DHC 8 -400**
A	A	A	A	A			A			**Bombardier CRJ 100, 200, 440**
	A		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)**
	A		I				A			**Embraer EMB 190**
		A								**Embraer Legacy 600 and EMB – 135/145**

Chart Legend: AFIRS 220 or 228 model, A = Approved, P = Pending (Provisions STC has been received; in final stages before receiving a full STC), I = In Progress.

FLYHT has also received an approved AFIRS 228 STC for the Bombardier CRJ- 700, 900 from the DGAC. FLYHT has AFIRS 228 applications in progress with SAAU for B737-300, -400, -500 and B737-700, -800 aircraft. An AFIRS 228 application is also in progress with HKCAD for the Airbus A319, A320 and A321.

Trends and Economic Factors

FLYHT examines the communications issued by leading aviation associations and corporations in order to gain insight on the status of the industry.

The Aviation Industry in 2017

The International Air Transport Association's (IATA) 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 7.6% increase in 2017 compared to the previous year. 2017 results were also ahead of the ten-year average growth rate of 5.5%[1]. All regions, outside of the Middle East, saw demand growth in International passenger traffic, and load factors that measure the capacity utilization of flights were at a record annual high of 81.4%. Demand in domestic markets at 7.0% was slightly lower than international travel at 7.9%[2]. Global freight traffic (measured in FTK) increased by 9.0% in 2017, which more than doubled the industry's 3.6% annual growth in 2016 and is the strongest growth since 2010[3]. All regions experienced positive freight growth. African airlines topped the regions with growth of 25.2% in 2017, followed by Europe, with an increase of 11.9%[4].

Results from large commercial aircraft manufacturers were mostly to the upside in 2017 and their order backlog numbers remain high. Airbus continued its growth with a new record for aircraft deliveries of 718 aircraft for 85 customers, an increase from last year's record 688 aircraft to 82 customers[5]. At the end of 2017, Airbus' overall backlog stood at 7,265 aircraft valued at US $1.059 trillion at list prices. Airbus achieved milestone deliveries in the year and opened the new A330 Completion and Delivery Centre in Tianjin, China[6]. Boeing's deliveries increased to 763 aircraft in 2017 from 748 in 2016[7]. Boeing published their backlog at the end of 2017 at 5,800 commercial aircraft. This backlog represents orders of nearly US $421 billion[8]. Embraer saw a decline in deliveries from 2016 and delivered a total of 101 commercial and 109 executive jets (72 light and 37 large) in 2017[9]. The manufacturer has a backlog of US $18.3 billion. Bombardier delivered less aircraft than the previous year, a total of 213 business and commercial jets compared to 249 aircraft in 2016, though they were in line with the guidance they provided for the year. Bombardier's backlog at the end of 2017 is $14 billion in business jets and 433 commercial aircraft[10].

The General Aviation Manufacturers Association (GAMA) reported that numbers in worldwide general aviation airplane shipments in 2017 increased 2.5% to 2,324 compared to 2,268 in 2016[11].

Future Industry Projections

According to IATA's 2018 outlook[12], the global aviation industry is continuing to grow and is expected to retain USD $8.9 for every passenger carried in 2018. IATA reports that the industry is expected to add 1,683 new aircraft in 2018, expanding the global commercial fleet to 30,000 aircraft. 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, forecast robust demand to continue over the next twenty years. Boeing increased their prediction about new aircraft from last year's outlook to a total need of 41,030 new aircraft worth US $6.1 trillion[13] and Airbus' states the demand for 34,900 aircraft worth US $5.3 trillion[14]. The Asia-Pacific region, which includes India, China and Oceania is expected to become the world's leading travel market, growing 5.7% annually by 2036 and will constitute nearly 40% of global passenger traffic, with China needing 5,420 new widebody aircraft and 940 single-aisle airplanes[15]. China is expected to become the largest domestic air travel market, surpassing North America because of the increased growth of the middle class.

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[1] http://www.iata.org/pressroom/pr/Pages/2018-02-01-01.aspx
[2] http://www.iata.org/publications/economics/Reports/pax-monthly-analysis/passenger-analysis-dec-2017.pdf
[3] http://www.iata.org/pressroom/pr/Pages/2018-01-31-01.aspx
[4] http://www.iata.org/publications/economics/Reports/freight-monthly-analysis/freight-analysis-dec-2017.pdf
[5] http://www.airbus.com/newsroom/press-releases/en/2018/01/airbus-commercial-aircraft-delivers-record-performance.html
[6] http://www.airbus.com/newsroom/press-releases/en/2018/01/airbus-commercial-aircraft-delivers-record-performance.html
[7] http://boeing.mediaroom.com/2018-01-31-Boeing-Reports-Record-2017-Results-and-Provides-2018-Guidance
[8] http://boeing.mediaroom.com/2018-01-31-Boeing-Reports-Record-2017-Results-and-Provides-2018-Guidance
[9] https://daflwcl3bnxyt.cloudfront.net/m/4155bb8e78b3e665/original/4Q17-Deliveries-Announcement-US.pdf
[10] https://www.bombardier.com/en/media/newsList/details.binc-20180215-bombardier-reports-fourth-quarter-and-full-year-20.bombardiercom.html
[11] https://gama.aero/news-and-events/press-releases/gama-presents-2017-year-end-aircraft-shipment-and-billings-numbers-at-annual-press-conference/
[12] http://www.iata.org/publications/economics/Reports/Industry-Econ-Performance/IATA-Economic-Performance-of-the-Industry-end-year-2017-report.pdf
[13] http://www.boeing.com/resources/boeingdotcom/commercial/market/current-market-outlook-2017/assets/downloads/cmo-2018-01-26.pdf
[14] http://www.airbus.com/aircraft/market/global-market-forecast.html
[15] http://www.boeing.com/resources/boeingdotcom/commercial/market/current-market-outlook-2017/assets/downloads/cmo-2018-01-26.pdf

With the growth in the industry, the aviation market increases it reliance 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[16]. They increased their forecast from last year's predictions of the launch of 1,450 satellites between 2016 and 2025, and a market of US $250 billion[17] to 3,000 satellites with a market of US $304 billion.[18]

Regulatory Drivers

The International Civil Aviation Organization (ICAO) adopted new amendments to Annex 6 (Operation of Aircraft) that will take effect by 2021. These are applicable to FLYHT because they encompass services that we currently offer. Amendment 39 for Normal Aircraft Tracking makes an aircraft operator responsible for tracking its aircraft in its area of operations with a tracking time interval of 15 minutes, applicable on November 1, 2018 to specific classes of aircraft. Amendment 40 for Autonomous Distress Tracking (ADT) requires aircraft to carry an ADT device that can autonomously transmit location information at least once every minute in distress circumstances. The ADT amendment will come into effect on newly manufactured aircraft starting January 1, 2021. Amendment 40 is the Timely Access to Flight Data Recorder Information and requires aircraft to be equipped with a means to have flight recorder data recovered and available in a timely manner.

FLYHT's Market

FLYHT's technology is available to a number of sectors within the global aerospace industry. The Company's AFIRS product can be installed on commercial, business or military aircraft, although the latter category represents a small portion of current business. In addition, FLYHT's UpTime Cloud services are available to these market segments. The technology relies on the use of satellites for real-time communication with aircraft.

FLYHT remains an industry leader in real-time data streaming technology that enhances the efficiency and safety of aircraft. The Company focused on the development and launch of a cloud-based UpTime software over the past two years. UpTime Cloud marks an improvement over our previous technology, with configurability pushed to the customer and the ability to scale-up and increase the number of customers using the platform. FLYHT will continue to add functions and features to improve UpTime Cloud capabilities. Such features detect and notify the airline of problems while the aircraft is in flight and allow the operator to prepare for repairs before the aircraft lands, thereby reducing the financial impact of unscheduled maintenance. FLYHT also focused on industry trials in 2017. The Company developed its technology to stream data over the Inmarsat Satellite network for trials with Boeing and Inmarsat.

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.

FLYHT's primary sales target has been commercial passenger and air freight transport customers, while its 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 through OEM partnerships, with a goal to fit AFIRS equipment on the aircraft during production so that UpTime Cloud services can be turned on immediately after delivery to the customer.

The strengthening of the Canadian dollar relative to the U.S. dollar throughout 2017 had a negative impact on the Company's revenue and income compared to 2016. 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 partial natural hedge exists against fluctuations of the Canadian dollar.

Contracts and Achievements of Fiscal 2017

Contracts

In January, FLYHT announced a contract with an existing customer in the People's Republic of China (China) for AFIRS 228 valued at USD $1.3 million.

In March, FLYHT announced a new commercial airline customer in China for AFIRS 228 hardware, valued at USD $1.68 million.

[16] http://www.euroconsult-ec.com/research/satellite-value-chain-2016-extract.pdf
[17] http://www.euroconsult-ec.com/13_September_2016
[18] http://www.euroconsult-ec.com/11_October_2017

In March, FLYHT announced customer and parts sales activity in the first quarter of 2017 including USD $1.5 million of parts to an existing OEM partner. One new and seven current customers signed AFIRS 228 units and/or voice and data services for a total of USD $1.5 million.

In April, FLYHT announced the sale of AFIRS hardware to a new commercial airline customer in China, valued at USD $1.9 million.

In June, FLYHT announced updates to customer and parts sales activity for the second quarter of 2017. FLYHT received parts orders of USD $2.2 million from an existing OEM partner. Seven current customers signed contracts for additional AFIRS 228 hardware and/or voice and data services for a total of USD $833,000.

In September, FLYHT announced the sale of AFIRS to two new commercial cargo customers in China, valued at USD $1.4 million.

In October, FLYHT announced updates to customer and parts sales activity in the third quarter of 2017 with an addition of USD $1.7 million in contracts and purchase orders.

In October, FLYHT announced a sale of AFIRS and FLYHTLog services to Azur Havacilik (Azur Aviation), based in Antalya, Turkey for USD $2.1 million.

At the end of the year, FLYHT announced an addition of USD $555,000 in new sales contracts and purchase orders during the fourth quarter of 2017.

Achievements

In March, FLYHT announced the official launch of its UpTime Cloud software. The UpTime Cloud web portal improves the Company's software usability, while providing enhancements to security and infrastructure.

In the first quarter, FLYHT was awarded STCs for the AFIRS 228 by the FAA for MD82/83 aircraft and from the CAAC for the Boeing 757.

In June, FLYHT announced the receipt of a patent from the United States Patent and Trademark Office for FLYHTStream.

In the second quarter, FLYHT was awarded an AFIRS 228 STC by CAAC for Boeing 737-300/400/500 aircraft.

In July, FLYHT announced it had amended its operating demand loan ("Line of Credit") with a Canadian chartered bank to increase borrowing availability to CAD $1.5 million.

In July, FLYHT announced the TSX Venture Exchange approved a consolidation of its common shares on a 10 to 1 basis. The Consolidation took effect July 17, 2017.

In August, FLYHT announced its participation in the Boeing ecoDemonstrator Program. The Program is designed to collect data and produce test reports that are necessary to demonstrate Autonomous Distress Tracking and the Timely Recovery of Flight Data. FLYHT's portion of the project is expected to be complete in 2018.

In September, FLYHT announced a flight trial with Inmarsat to demonstrate the use of AFIRS to send data to the UpTime Cloud management platform via Inmarsat's secure IP broadband platform, SwiftBroadband-Safety (SB-S).

In the third quarter, FLYHT was issued a TCCA STC for AFIRS 228 for the Bombardier Q-400 and revised a TCCA STC in August to allow for modifications on A320 aircraft to introduce AFIRS 228S real-time data services. FLYHT also received the final approval for activation of the TCCA STC for the E-190 Embraer Jet family.

In November, FLYHT appointed Matieu Plamondon as Chief Operating Officer.

In the fourth quarter, FLYHT was issued the CAAC STC for the E-190 Embraer Jet family.

Results of Operations – Years Ended December 31, 2017, 2016 and 2015

Selected Results

2017	Q4 $	Q3 $	Q2 $	Q1 $	Total $
Assets	7,148,847	6,955,314	7,710,302	7,615,545	7,148,847
Non-current financial liabilities	1,842,439	1,385,440	1,209,206	1,072,848	1,842,439
Revenue	3,579,296	3,322,342	3,388,030	3,729,082	14,018,750
Cost of sales	1,029,288	1,480,303	1,124,487	1,138,602	4,772,680
Gross margin	2,550,008	1,842,039	2,263,543	2,590,480	9,246,070
Gross margin %	71.0%	55.4%	66.8%	69.5%	66.0%
Distribution expenses	1,170,695	1,166,972	1,418,610	1,195,194	4,951,471
Administration expenses	745,423	684,651	1,090,335	638,120	3,158,529
Research, development and certification engineering expenses	1,099,869	458,327	399,920	561,158	2,519,274
Results from operating activities	(465,979)	(467,911)	(645,322)	196,008	(1,383,204)
Depreciation	69,272	26,980	25,093	22,148	143,493
EBITDA*	(396,707)	(440,931)	(620,229)	218,156	(1,239,711)
Income (loss)	(520,428)	(624,425)	(724,102)	113,340	(1,755,615)
Income (loss) per share (basic)	(0.02)	(0.03)	(0.03)	0.01	(0.08)
Income (loss) per share (fully diluted)	(0.02)	(0.03)	(0.03)	0.01	(0.08)
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
Gross margin	3,093,377	2,708,027	2,258,919	1,749,366	9,809,689
Gross margin %	74.9%	66.8%	63.9%	67.0%	68.4%
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) per share (basic)	0.00	0.01	0.13	(0.07)	0.09
Income (loss) per share (fully diluted)	0.00	0.01	0.13	(0.07)	0.09
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
Gross margin	2,428,754	1,847,006	1,036,068	1,932,007	7,243,835
Gross margin %	64.4%	73.3%	64.8%	75.2%	69.3%
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)
(Loss) per share (basic	(0.07)	(0.04)	(0.11)	(0.00)	(0.23)
(Loss) per share (fully diluted)	(0.07)	(0.04)	(0.11)	(0.00)	(0.23)

*See Non-GAAP Financial Measures

Weighted Average Shares Outstanding

	2017 $	2016 $	2015 $
Basic	20,926,589	19,507,065	17,242,349
Diluted	20,926,589	19,541,957	17,242,349

Financial Position

Liquidity and Capital Resource

The Company's cash at December 31, 2017 increased to $2,014,135 from $709,958 at December 31, 2016. On July 7, 2017, the Company amended its operating demand loan with a Canadian chartered bank to increase its borrowing availability to CAD $1.5 million from $250,000. This facility was undrawn as at December 31, 2017. The operating demand loan bears interest at the Canadian chartered bank prime plus 1.5%. Security includes specific accounts receivable, a guarantee under the Export Development Canada's Export Guarantee Fund and a general security agreement including a security interest in all personal property. This amendment released the GIC of $250,000 previously pledged as security.

At December 31, 2017, the Company had positive working capital of $1,761,003 compared to positive $1,724,190 as of December 31, 2016, an increase of $36,813. When non-refundable items (customer deposits, deposits and prepaid expenses, and the current portion of unearned revenue net of installations in progress) are excluded from the working capital calculation, the resulting modified working capital at December 31, 2017 would be positive $3,239,928 compared to positive $2,185,016 at December 31, 2016.

The Company funded 2017 operations primarily through cash received from sales, contributions from the Western Innovation Initiative (WINN), and proceeds from exercised share options and warrants. The Company will continue to strive to self-fund operations through 2018.

	2017 $	2016 $	Variance $
Cash and cash equivalents	2,014,135	709,958	1,304,177
Restricted cash	-	250,000	(250,000)
Trade and other receivables	1,887,251	2,105,385	(218,134)
Deposits and prepaid expenses	391,191	216,819	174,372
Inventory	1,563,558	1,556,794	6,764
Trade payables and accrued liabilities	(1,868,563)	(1,845,408)	(23,155)
Customer deposits	(1,687,971)	(317,899)	(1,370,072)
Unearned revenue	(413,809)	(827,235)	413,426
Loans and borrowings	(112,578)	(97,895)	(14,683)
Finance lease obligations	-	(15,553)	15,553
Current tax liabilities	(12,211)	(10,776)	(1,435)
Working capital	**1,761,003**	**1,724,190**	**36,813**
Unearned revenue	413,809	827,235	(413,426)
Installations in progress	(231,664)	(467,489)	235,825
Deposits and prepaid expenses	(391,191)	(216,819)	(174,372)
Customer deposits	1,687,971	317,899	1,370,072
Modified working capital*	**3,239,928**	**2,185,016**	**1,054,912**

*See Non-GAAP Financial Measures

In 2017 option and warrant exercises resulted in the Company issuing a total of 314,451 shares for total proceeds of $538,423 including:

	Quantity	Price $	Proceeds $
Share options	22,500	1.65	37,125
Share options	20,000	1.85	37,000
Share options	30,930	1.90	58,767
Share options	20,000	2.20	44,000
Share options	30,000	2.50	75,000
Warrants	191,021	1.50	286,531
Total	**314,451**		**538,423**

As at April 10, 2018 FLYHT's issued and outstanding share capital was 21,058,617.

The consistent achievement of positive earnings is necessary before the Company can consistently improve liquidity. The Company has continued to expand its cash flow potential through its continued marketing drive to clients around the world and contracts for delivery of AFIRS units and related services. 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.

For the Company to continue as a going concern longer-term, it will need to achieve 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 deteriorates, or revenue streams and/or markets do not improve, 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. These material uncertainties may cast significant doubt upon the Company's ability to continue as a going concern.

There is no assurance that the Company will be successful in attaining and sustaining profitable operations and cash flow or raising additional capital to meet its working capital requirements. If the Company is unable to satisfy its working capital requirements from these sources, the Company's ability to continue as a going concern and to achieve its intended business objectives will be adversely affected. These consolidated financial statements do not reflect adjustments that would otherwise be necessary if the going concern assumption was not valid, such as revaluation to liquidation values and reclassification of statement of financial position items.

Financial Instruments

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

The Company may be 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, 2017	< 2 months $	2-12 months $	1-2 years $	2-5 years $	> 5 years $	Total $
Accounts payable	1,340,510	-	-	-	-	1,340,510
Compensation and statutory deductions	46,763	274,647	27,000	-	-	348,410
Accrued liabilities	37,990	113,479	11,658	16,516	-	179,643
Loans and borrowings	-	119,333	137,234	1,628,685	822,220	2,707,472
Total	**1,425,263**	**507,459**	**175,892**	**1,645,201**	**822,220**	**4,576,035**

Operating lease rentals are payable as follows:

	Premises $
2018	462,678
2019	462,678
2020	462,678
2021	77,113
Total	**1,465,147**

Under the Strategic Aerospace and Defence Initiative (SADI), the Company has, at December 31, 2017, an outstanding repayable balance of $1,626,814, compared to $1,730,582 at December 31, 2016. 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 2017 was $103,767 (2016: $90,234).

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 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, 2017, the Company had received contributions of $1,080,658.

A summary of the carrying value of the SADI and WINN loans as at December 31, 2017 and 2016 and changes during these years is presented below.

	2017 $		2016 $	
	SADI	**WINN**	**SADI**	**WINN**
Balance January 1	1,072,641	-	984,507	-
Received	-	1,080,658	-	-
Grant portion	-	(318,310)	-	-
Interest accretion	193,805	29,989	178,368	-
Repayment	(103,767)	-	(90,234)	-
Balance December 31	**1,162,679**	**792,338**	**1,072,641**	**-**
Less current portion	112,578	-	97,895	
Non-current portion	1,050,101	792,338	974,746	-

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. These deposits are nonrefundable.

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. 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 the 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.

The chart below outlines the movement in the Company's customer deposits throughout the periods ending December 31, 2017 and 2016 including prepayments for AFIRS sales and Parts. Payment was received for 11 installation kits in the fourth quarter of 2017 compared to 14 received in the fourth quarter of 2016, bringing 2017 year-to-date ("YTD") total payments for installation kits to 64, compared to a total of 58 in 2016.

	Q4 2017 $	Q4 2016 $	Variance $	YTD 2017 $	YTD 2016 $	Variance $
Opening balance	1,106,012	508,224	597,788	317,899	1,020,675	(702,776)
Payments received	1,801,603	512,257	1,289,346	5,453,511	2,681,987	2,771,524
Moved to unearned revenue	(1,219,644)	(702,582)	(517,062)	(4,083,439)	(3,384,763)	(698,676)
Balance, December 31	**1,687,971**	**317,899**	**1,370,072**	**1,687,971**	**317,899**	**1,370,072**

Unearned Revenue

The chart below outlines the movement in the Company's unearned revenue throughout the periods ending December 31, 2017 and 2016. Revenue was recognized for 27 installation kits in 2017's fourth quarter compared to 12 in the fourth quarter of 2016. YTD, revenue has been recognized for 81 installation kits in 2017, as compared to 73 in 2016. In 2017, 100.0% of the unearned revenue balance at December 31, 2016 was recognized as earned revenue (2016: 100.0%).

	Q4 2017 $	Q4 2016 $	Variance $	YTD 2017 $	YTD 2016 $	Variance $
Opening balance	579,673	747,511	(167,838)	827,235	1,145,341	(318,106)
AFIRS sales shipped	1,219,644	702,582	517,062	4,083,439	3,384,763	698,676
Voice and data services prepaid	-	19,866	(19,866)	-	19,866	(19,866)
AFIRS sales recognized	(1,380,282)	(637,965)	(742,317)	(4,476,999)	(3,703,703)	(773,296)
Voice and data services recognized	(5,226)	(4,759)	(467)	(19,866)	(19,032)	(834)
Balance, December 31	**413,809**	**827,235**	**(413,426)**	**413,809**	**827,235**	**(413,426)**

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 2017 $	Q4 2016 $	Variance $	YTD 2017 $	YTD 2016 $	Variance $
Voice and data services	1,001,551	1,169,741	(168,190)	4,312,701	4,375,138	(62,437)
AFIRS sales	1,502,910	854,406	648,504	4,600,520	3,931,607	668,913
Parts sales	1,045,075	2,091,720	(1,046,645)	4,951,616	5,808,491	(856,875)
Services	29,760	11,960	17,800	153,913	215,955	(62,042)
Total	**3,579,296**	**4,127,827**	**(548,531)**	**14,018,750**	**14,331,191**	**(312,441)**

Overall, total revenue decreased 2.2% from $14,331,191 in 2016 to $14,018,750 in 2017. AFIRS sales increased by 17.0%, while Voice and data services decreased by 1.4%, Parts sales decreased by 14.8%, and Services revenue decreased by 28.7%.

Voice and data services decreased compared to last year, as although a higher number of aircraft were producing recurring revenue, the average revenue per aircraft decreased, largely due to changes in the value of the USD from 2016 to 2017. Recurring revenue accounted for 28.0% of revenue in Q4 2017 (Q4 2016: 28.3%), and 30.8% YTD 2017 (YTD 2016: 30.5%). Recurring revenue from FLYHT's existing client base is expected to continue to expand throughout 2017 and future years.

AFIRS sales increased in 2017 as compared to 2016 due to an increased number of installation kits meeting the requirements for revenue recognition. YTD, revenue has been recognized for 81 installation kits, compared to 73 in 2016. Revenue was recognized for 27 installation kits in Q4 2017 compared to 12 in Q4 2016.

Parts sales decreased both in the quarter and YTD in 2017 from 2016 due to differences in the number of modems with related license fees shipped.

Services revenue increased in the quarter while decreasing YTD in 2017 compared to 2016. This revenue category can be expected to vary significantly between periods and years, depending on the level of technical services provided to customers in the period.

Revenue sources for the last eight quarters were:

	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Voice and data services	1,001,551	998,337	1,158,340	1,154,473	1,169,741	1,122,965	1,014,725	1,067,707
AFIRS sales	1,502,910	1,392,193	727,858	977,560	854,406	1,353,021	1,286,641	437,540
Parts sales	1,045,075	863,221	1,479,402	1,563,918	2,091,720	1,561,816	1,126,542	1,028,412
Services	29,760	68,591	22,430	33,131	11,960	16,566	109,757	77,672
Total	**3,579,296**	**3,322,342**	**3,388,030**	**3,729,082**	**4,127,827**	**4,054,368**	**3,537,665**	**2,611,331**

	Q4 2017	Q4 2016	YTD 2017	YTD 2016
	$	**$**	**$**	**$**
North America	2,075,584	2,919,694	7,683,296	9,007,719
South/Central America	137,732	231,270	442,603	658,319
Africa	296,843	126,980	774,407	610,886
Middle East	349,433	262,401	873,546	987,750
Europe	159,818	68,184	333,152	286,489
Australasia	158,097	192,925	819,153	719,763
Asia	401,789	326,373	3,092,593	2,060,265
Total	**3,579,296**	**4,127,827**	**14,018,750**	**14,331,191**

	Q4 2017	Q4 2016	YTD 2017	YTD 2016
	%	**%**	**%**	**%**
North America	58.0	70.7	54.8	62.9
South/Central America	3.8	5.6	3.2	4.6
Africa	8.3	3.1	5.5	4.3
Middle East	9.8	6.4	6.2	6.9
Europe	4.5	1.7	2.4	2.0
Australasia	4.4	4.7	5.8	5.0
Asia	11.2	7.9	22.1	14.4
Total	**100.0**	**100.0**	**100.0**	**100.0**

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 2017 was 28.8% compared to 25.1% in 2016's fourth quarter. A review of the annual results shows the cost of sales as a percentage of revenue also increased from 31.6% in 2016 to 34.0% in 2017. The decrease in gross margin was due to differences in the mix of revenue sources in 2017 versus 2016 and a decrease in average AFIRS sales margin from 44.5% in 2016 to 43.4% in 2017. Gross margin will fluctuate quarter over quarter depending on customer needs and revenue mix.

Gross margin for the last eight quarters was:

	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Gross Margin %	56.8	55.4	66.8	69.5	74.9	66.8	63.9	66.9
Cost of Sales	43.2	44.6	33.2	30.5	25.1	33.2	36.1	33.1

Distribution Expenses (Recovery)

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

Major Category	Q4 2017 $	Q4 2016 $	Variance $	YTD 2017 $	YTD 2016 $	Variance $
Salaries and benefits	420,315	978,347	(558,032)	2,361,046	3,255,326	(894,280)
Share based compensation	3,154	4,625	(1,471)	152,272	97,067	55,205
Contract labour	301,633	155,528	146,105	881,837	498,106	383,731
Office	101,744	95,901	5,843	429,294	416,733	12,561
Travel	125,839	139,930	(14,091)	601,172	562,645	38,527
Equipment and maintenance	18,121	12,614	5,507	53,712	25,006	28,706
Depreciation	10,378	10,064	314	34,438	41,580	(7,142)
Marketing	45,337	27,202	18,135	268,033	113,879	154,154
Other	144,174	-	144,174	169,667	(103,303)	272,970
Total	**1,170,695**	**1,424,211**	**(253,516)**	**4,951,471**	**4,907,039**	**44,432**

Distribution expenses increased by 0.9% from 2016 to 2017.

Salaries and benefits have decreased in 2017 primarily due to the replacement of one sales staff with a contractor, as can be noted in the increases in **Contract labour**, together with an increased allocation of staffing costs based on research and development activity requirements.

Share based compensation has increased in 2017 as a result of an increased number of options granted to employees involved in distribution activities.

Travel expense has decreased in the quarter while increasing YTD in support of increased sales efforts, particularly in China.

Equipment and maintenance expense increases in the quarter and YTD resulted from purchases of cloud-based services to support UpTime Cloud.

Marketing expense has increased in 2017 due to an increased attendance at industry tradeshows, the recording in May 2017 of a program filmed on Worldwide Business with kathy ireland ®, and the costs involved with performing a trial with a potential new customer.

Other expense increases are the result of differences in bad debt reserve accrued between 2017 and bad debt recovery in Q2 2016.

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 2017 $	Q4 2016 $	Variance $	YTD 2017 $	YTD 2016 $	Variance $
Salaries and benefits	306,721	427,797	(121,076)	1,326,548	1,589,395	(262,847)
Share based compensation	11,828	-	11,828	281,675	228,058	53,617
Contract labour	130,294	48,096	82,198	431,423	172,014	259,409
Office	81,981	80,271	1,710	305,694	289,311	16,383
Legal fees	20,015	18,701	1,314	76,446	166,461	(90,015)
Audit and accounting	51,022	41,975	9,047	192,452	141,650	50,802
Investor relations	37,143	31,768	5,375	158,931	153,580	5,351
Brokerage, stock exchange, and transfer agent fees	4,923	6,154	(1,231)	40,350	61,665	(21,315)
Travel	23,261	29,584	(6,323)	102,348	119,143	(16,795)
Equipment and maintenance	38,394	16,062	22,332	131,340	79,187	52,153
Depreciation	27,038	3,268	23,770	59,334	9,704	49,630
Other	12,803	15,421	(2,618)	51,988	77,488	(25,500)
Total	**745,423**	**719,097**	**26,326**	**3,158,529**	**3,087,656**	**70,873**

Administration expenses increased 2.3% from 2016 to 2017.

Contract labour expenses were higher both in the quarter and YTD due to fees related to professional services, deploying internal guiding principles, and the appointment of an interim CFO, partially offset by lower **Salaries and benefits** expenses.

Legal fees decreased YTD as several 2016 employee related services were not required in 2017. These included international employment law and treasury matters.

Audit and accounting increased in YTD resulting from service adjustments, including evaluation and development of an implementation plan to meet the requirements of IFRS 15.

Brokerage, stock exchange, and transfer agent fees have lessened in 2017, as the expenses involved in May 2016's private placement were not required in 2017.

Equipment and maintenance expenses and **Depreciation** increased YTD mainly due to the implementation and license costs associated with the enterprise resource planning software.

Other expenses also decreased in 2017 from the same period in 2016, as the employee relocation in Q2 2016 did not recur in 2017.

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 2017 $	Q4 2016 $	Variance $	YTD 2017 $	YTD 2016 $	Variance $
Salaries and benefits	699,428	467,494	231,934	2,093,261	1,562,383	530,878
Share based compensation	-	-	-	25,448	37,220	(11,772)
Contract labour	87,648	128,310	(40,662)	276,669	315,198	(38,529)
Office	48,557	40,566	7,991	127,221	119,530	7,691
Travel	19,163	12,520	6,643	90,911	54,595	36,316
Equipment and maintenance	32,297	35,335	(3,038)	125,357	111,077	14,280
Components	57,518	28,371	29,147	165,510	57,171	108,339
SR&ED credit	-	8,424	(8,424)	(116,514)	(211,790)	95,276
Depreciation	31,856	4,719	27,137	49,721	15,395	34,326
Government grants	123,402	-	123,402	(318,310)	-	(318,310)
Warranty Settlement	-	-	-	-	540,450	(540,450)
Total	**1,099,869**	**725,739**	**374,130**	**2,519,274**	**2,601,229**	**(81,955)**

Research and Development expense was 3.2% lower in 2017 compared to the prior year due mainly to a 2016 settlement of a warranty claim that did not recur in the current year, funding received from WINN in 2017, partially offset by an increase in research and development staffing costs. Research and development costs vary according to specific project requirements.

Salaries and benefits have increased mainly due to differences in allocations from other cost centres to R&D and the replacement of a contractor with staff as can be noted in the decreases in **Contract labour**, together with an increased allocation of staffing costs based on research and development activity requirements.

Travel expenses increased YTD due to an increased requirement for certification test flights. Cost of travel varies significantly depending on the location of customers and regions served.

Components requirements were higher in 2017 than in 2016 as a higher number of expensed parts were used in development and testing activities.

The decreased **SR&ED credit** in 2017 was due to a difference in costs associated with eligible activities for this program.

Depreciation increases concentrated in the fourth quarter were associated with capitalized development-specific software purchased in 2017.

Government grants changed due to funding received from WINN in 2017. The $318,310 shown is the portion of funds received that has been accounted for as a grant.

Net Finance Costs

Major Category	Q4 2017 $	Q4 2016 $	Variance $	YTD 2017 $	YTD 2016 $	Variance $
Interest (income)	(6,051)	(2,801)	(3,250)	(15,756)	(30,368)	14,612
Net foreign exchange loss (gain)	(5,034)	2,814	(7,848)	115,979	11,023	104,956
Bank service charges	6,107	17,890	(11,783)	38,807	37,331	1,476
Interest expense	64	1,089	(1,025)	681	2,736	(2,055)
Government loan accretion	57,323	46,475	10,848	223,795	178,369	45,426
Debenture interest and accretion	-	75,234	(75,234)	-	509,113	(509,113)
Debenture cost amortization	-	-	-	-	5,295	(5,295)
Net finance costs	**52,409**	**140,701**	**(88,292)**	**363,506**	**713,499**	**(349,993)**

Net foreign exchange loss (gain) will vary between periods due to fluctuations in the value of the Canadian dollar in relation to the U.S. dollar. A YTD 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 and WINN grants.

Debenture interest and accretion decreases were attributable to the debenture redemption in June 2016, which had no effect on 2017.

Net Loss

Major Category	Q4 2017 $	Q4 2016 $	Variance $	YTD 2017 $	YTD 2016 $	Variance $
Net income (loss)	(520,428)	79,709	(600,137)	(1,755,615)	1,712,718	(3,468,333)

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 2017, 99.0% of the Company's gross sales were made in U.S. dollars, compared to 99.0% in 2016. 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 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 audited annual consolidated financial statements.

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 the Company expects will have an impact on the 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).

The Company will adopt this standard effective January 1, 2018. Evaluation of the impact of adoption continues, with identification of performance obligations and the required allocation of the total transaction price key areas of focus. The Company is not able at this time to estimate reasonably the impact that the adoption of this standard will have on the 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 175 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. The timing of a c-check for AFIRS installation is an uncertainty to the Company because it results in a delay in initial revenue from the sale of the box and the Company does not receive recurring revenue connected with the monthly service offerings until the device is installed and running.

The Company takes steps to mitigate this uncertainty by encouraging customers to install AFIRS at their aircraft's earliest availability and works with them to provide the product 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 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 when revenue is recognized, but allows the Company to receive cash immediately after signing an agreement. As well, the terms of the Company's standard agreement states that payment is due a minimum of 45 days prior to the shipment of kits.

Foreign currency fluctuations

The Company realizes a majority of its sales 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 partial 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 responsible for 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

The Company has completed the development of the AFIRS 228 product line and continues to build out its AFIRS 228 Supplemental Type Certificate portfolio. Continued success is dependent on the maintenance of these certifications and the sustaining engineering activities to maintain the manufacturability of the hardware. The bulk of the Company's development resources are engaged in the creation of new capabilities of UpTime Cloud. FLYHT is confident the product fills a gap in the industry, as evidenced by sales of the AFIRS 228 throughout 2013 to 2017. The Company's success will ultimately depend on the success of its products, and future enhancements made to same.

Availability of key supplies

FLYHT services 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 servicing 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

FLYHT appointed an interim CFO from June 5 to November 5, 2017. The services were provided by a company controlled by a director of FLYHT. No similar services were contracted during 2016. All of the transactions with the related party were at exchange amounts that approximated fair value and were supported by a third party receipt.

	For the three months ended December 31, 2017		**For the year ended December 31**	
Amounts included in:	**2017 $**	**2016 $**	**2017 $**	**2016 $**
Contract labour	19,200	-	83,200	-
Accounts payable and accrued liabilities	-	-	-	-

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.

Subsequent Events

In Q1 2018, the Company received contributions totaling $317,195 under the WINN agreement, bringing the total received to date to $1,397,853.

In April 2018, the Company applied to the TSX for an amendment of the exercise price of the share purchase warrants that were originally issued on May 12, 2016 from $2.50 to $1.60 per share purchase warrant. The warrants are set to expire on May 12, 2018.

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 statement of financial position as at December 31, 2017 and December 31, 2016, 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, 2017 and December 31, 2016, 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.

Chartered Professional Accountants
April 10, 2018
Calgary, Canada

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	December 31, 2017	December 31, 2016
	$	$
Assets		
Current Assets		
Cash and cash equivalents (note 6)	2,014,135	709,958
Restricted cash	-	250,000
Trade and other receivables (note 7)	1,887,251	2,105,385
Deposits and prepaid expenses	391,191	216,819
Inventory (note 8)	1,563,558	1,556,794
Total current assets	5,856,136	4,838,956
Non-current assets		
Property and equipment (note 9)	398,272	335,836
Intangible assets (note 10)	34,992	34,992
Inventory (note 8)	859,448	1,306,422
Total non-current assets	1,292,712	1,677,250
Total assets	**7,148,847**	**6,516,206**
Liabilities		
Current liabilities		
Trade payables and accrued liabilities (note 11)	1,868,563	1,845,408
Customer deposits (note 12)	1,687,971	317,899
Unearned revenue (note 13)	413,809	827,235
Loans and borrowings (note 14)	112,578	97,895
Finance lease obligations	-	15,553
Current tax liabilities (note 26)	12,211	10,776
Total current liabilities	4,095,132	3,114,766
Non-current liabilities		
Loans and borrowings (note 14)	1,842,439	974,746
Provisions (note 16)	91,713	549,335
Total non-current liabilities	1,934,152	1,524,081
Total liabilities	**6,029,284**	**4,638,847**
Equity (deficiency)		
Share capital (note 17)	58,409,225	57,514,646
Warrants (note 17)	911,282	1,139,934
Contributed surplus	9,349,871	9,017,979
Deficit	(67,550,815)	(65,795,200)
Total equity (deficiency)	1,119,563	1,877,359
Total liabilities and equity	**7,148,847**	**6,516,206**

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	
	2017	**2016**
	$	**$**
Revenue (note 19)	14,018,750	14,331,191
Cost of sales	4,772,680	4,521,502
Gross profit	9,246,070	9,809,689
Other income (note 21)	-	(3,223,166)
Distribution expenses (note 22)	4,951,471	4,907,039
Administration expenses (note 23)	3,158,529	3,087,656
Research, development and certification engineering expenses (note 24)	2,519,274	2,601,229
Income (loss) from operating activities	(1,383,204)	2,436,931
Finance income (note 25)	15,756	30,368
Finance costs (note 25)	379,262	743,867
Net finance costs	363,506	713,499
Income (loss) before income tax	(1,746,710)	1,723,432
Income tax expense (note 26)	8,905	10,714
Income (loss) and comprehensive income (loss) for the period	(1,755,615)	1,712,718
Income (loss) per share		
Basic and diluted income (loss) per share (note 18)	(0.08)	0.09

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (DEFICIENCY)

For the years ended December 31, 2017 and 2016

	Share Capital $	Convertible Debenture $	Warrants $	Contributed Surplus $	Deficit $	Total Equity (Deficit) $
Balance at December 31, 2016	57,514,646	-	1,139,934	9,017,979	(65,795,200)	1,877,359
Loss for the period	-	-	-	-	(1,755,615)	(1,755,615)
Total comprehensive loss for the period	-	-	-	-	(1,755,615)	(1,755,615)
Contributions by and distributions to owners						
Share-based payment transactions	-	-	-	459,396	-	459,396
Share options exercised	379,396	-	-	(127,504)	-	251,892
Warrants exercised	515,183	-	(228,652)	-	-	286,531
Total contributions by and distributions to owners	894,579	-	(228,652)	331,892	-	997,819
Balance at December 31, 2017	58,409,225	-	911,282	9,349,871	(67,550,815)	1,119,563
Balance at December 31, 2015	53,895,046	222,531	-	8,439,136	(67,507,918)	(4,951,205)
Loss 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

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

	For the year ended December 31	
	2017	**2016**
	$	**$**
Cash flows from (used in) operating activities		
Income (loss) for the period	(1,755,615)	1,712,718
Depreciation – property plant and equipment	143,493	66,679
Convertible debenture accretion	-	509,113
Payment of debenture interest	-	(384,873)
Amortization of debenture issue costs	-	5,295
Grant portion of contributions from WINN	(318,310)	-
Government grant accretion	223,795	178,369
Equity-settled share-based payment transactions	459,396	362,345
Change in inventories	440,210	(210,098)
Change in trade and other receivables	96,546	(1,149,742)
Change in prepayments	(174,372)	(78,958)
Change in trade and other payables	78,207	134,311
Change in customer deposits	1,370,072	(702,776)
Change in provisions	(457,622)	285,738
Change in unearned revenue	(413,426)	(318,106)
Unrealized foreign exchange loss	146,300	29,368
Interest expense	681	2,736
Interest paid	(681)	(2,736)
Interest income	(15,756)	(30,368)
Interest received	15,756	30,368
Income tax expense	8,905	10,714
Income tax paid	(7,470)	(4,916)
Net cash from (used in) operating activities	(159,891)	445,181
Cash flows used in investing activities		
Acquisitions of property and equipment	(208,416)	(199,740)
Disposal of property and equipment	2,487	-
Net cash used in investing activities	(205,929)	(199,740)
Cash flows from (used in) financing activities		
Share issue costs	-	(345,081)
Redemption of GIC	250,000	-
Proceeds from issue of shares and warrants	-	5,086,512
Proceeds from exercise of share options and warrants	538,423	12,070
Contributions from WINN	1,080,658	-
Repayment of debenture	-	(5,360,000)
Repayment of borrowings	(103,767)	(90,234)
Payment of finance lease liabilities	(15,553)	(27,923)
Net cash from (used in) financing activities	1,749,761	(724,656)
Net (decrease) in cash and cash equivalents	1,383,941	(479,215)
Cash and cash equivalents, beginning	709,958	1,301,955
Effect of exchange rate fluctuations on cash held	(79,764)	(112,782)
Cash and cash equivalents, ending	2,014,135	709,958

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, 2017 and 2016 consist of the Company and its subsidiaries.

FLYHT's mission is to improve aviation safety, efficiency and profitability. Airlines, leasing companies, fractional owners and original equipment manufacturers have installed the Automated Flight Information Reporting System (AFIRS™) on their aircraft to capture, process and stream aircraft data with real-time alerts. AFIRS sends this information through satellite networks to the UpTime™ cloud-based data center, which provides aircraft operators with direct insight into the operational status and health of their aircraft and enables them to take corrective action to maintain the highest standard of operational control.

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 10, 2018.

(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

The 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, 2017 the Company had positive working capital of $1,761,003, a deficit of $67,550,815, a net loss in 2017 of $1,755,615 and negative cash flow from operating activities of $159,891 for the year.

The consistent achievement of positive earnings is necessary before the Company can consistently improve liquidity. The Company has continued to expand its cash flow potential through its continued marketing drive to clients around the world and contracts for delivery of AFIRS units and related services. 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.

For the Company to continue as a going concern longer-term, it will need to achieve 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 deteriorates, or revenue streams and/or markets do not improve, 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. These material uncertainties may cast significant doubt upon the Company's ability to continue as a going concern.

There is no assurance that the Company will be successful in attaining and sustaining profitable operations and cash flow or raising additional capital to meet its working capital requirements. If the Company is unable to satisfy its working capital requirements from these sources, the Company's ability to continue as a going concern and to achieve its intended business objectives will be adversely affected. These consolidated financial statements do not reflect adjustments that would otherwise be necessary if the going concern assumption was not valid, such as revaluation to liquidation values and reclassification of statement of financial position items.

(e) 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 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, 2017, no deferred tax assets were recognized.

3. The Company records amounts for warranty based on historical warranty data including expense incurred in relation to warranty and failure rates. A provision is recognized upon shipment of the underlying products.

4. The Company assesses raw materials and AFIRS finished goods inventory for potential obsolescence or impairment. This provision is determined based on regular reviews of slow moving inventory.

5. The Company used a discount rate to determine the fair value of the WINN contribution, as the contribution is a repayable loan at below market interest rates. The discount rate was determined based on debt market conditions as well as factors specific to the Company's operations and financial position.

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) 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.

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.

(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 trade payables, loans and borrowings and finance lease 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: 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.

(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 to measure cost of the AFIRS raw material inventories.

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 costs plus a standard labour allocation.

Installations-in-progress includes product costs and other direct project costs.

(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 that 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. 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	Straight line: 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.

(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.

(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 at minimum during the first term of each agreement. Provision required 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.

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

Revenue from the sale of units is recognized when the risks and rewards are transferred to the buyer. Depending on the contract that occurs upon shipment or upon installation of the system.

(ii) Voice and data services

Revenue from Voice and data services is recognized when the services are provided.

(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 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 parts and Underfloor Stowage Units is recognized when the unit is shipped 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, including wages, salaries, commissions and variable compensation payments, are measured based on the amount payable and are expensed as the related service is provided.

(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 vesting or expiry.

(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 may be issued to the agents as consideration for their services.

Warrants are classified as equity and recognized at fair value. 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 in profit or loss as it accrues, using the effective interest method.

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

(p) Foreign currency

(ii) 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.

(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 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 audited annual consolidated financial statements.

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 the Company expects will have an impact on the 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).

The Company will adopt this standard effective January 1, 2018. Evaluation of the impact of adoption continues, with identification of performance obligations and the required allocation of the total transaction price a key area of focus. The Company is not able at this time to estimate reasonably the impact that the adoption of this standard will have on the 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, all of which are determined using a number of observable inputs other than quoted prices in active markets.

(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, 2017	December 31, 2016
	$	$
Trade receivables	1,586,908	2,086,572
Non-trade receivables and accrued receivables	300,343	18,813
Total	**1,887,251**	**2,105,385**

Non-trade receivables consist of earned interest income receivable, input tax credits, and customer receivables pending billable events. The Company's exposure to credit and currency risks is disclosed in note 27.

8. Inventory

	December 31, 2017	December 31, 2016
	$	$
AFIRS raw materials	1,742,147	1,190,659
AFIRS finished goods	449,195	1,205,068
Installations in progress	231,664	467,489
Balance	**2,423,006**	**2,863,216**
Less current portion	(1,563,558)	(1,556,794)
Non-current portion	859,448	1,306,422

In 2017 AFIRS raw materials and changes in AFIRS finished goods and installations in progress recognized as cost of sales amounted to $3,586,699 (2016: $3,075,401). Included in this amount was write down of inventories amounting to $93,498 (2016: $112,449) resulting from a review of slow moving inventory parts. All inventories are pledged as security for the bank loan.

9. Property and equipment

2017	Computers and Software $	Equipment $	Leasehold Improvements $	Total $
Cost				
Balance at January 1	705,263	266,426	48,453	1,020,142
Additions	119,961	87,798	657	208,416
Disposals	-	9,065	-	9,065
Balance at December 31	825,224	345,159	49,110	1,219,493
Accumulated Depreciation				
Balance at January 1	464,125	201,509	18,672	684,306
Depreciation for the year	115,488	21,702	6,303	143,493
Disposals	-	6,578	-	6,578
Balance at December 31	579,613	216,633	24,975	821,221
Carrying Amounts				
At January 1	241,138	64,917	29,781	335,836
At December 31	**245,611**	**128,526**	**24,135**	**398,272**

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**

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, 2017, the net carrying amount of leased property and equipment was nil (2016: $47,367).

As of December 31, 2017, all property and equipment is pledged as security for the bank loan (note 14).

10. Intangible assets

The intangible asset balance of $34,992 at December 31, 2017 (December 31, 2016: $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, 2017 $	December 31, 2016 $
Trade payables	1,340,510	769,261
Compensation and statutory deductions	348,410	873,526
Accrued liabilities	179,643	202,621
Total	**1,868,563**	**1,845,408**

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

12. Customer deposits

	December 31, 2017 $	December 31, 2016 $
Opening balance	317,899	1,020,675
Payments received	5,453,511	2,681,987
Moved to unearned revenue	(4,083,439)	(3,384,763)
Balance, December 31	**1,687,971**	**317,899**

13. Unearned revenue

	2017 $	2016 $
Balance January 1	827,235	1,145,341
AFIRS sales: shipped	4,083,439	3,384,763
AFIRS sales: revenue recognized	(4,476,999)	(3,703,703)
Voice and data services: prepaid	-	19,866
Voice and data services: revenue recognized	(19,866)	(19,032)
Balance December 31	**413,809**	**827,235**
Less current portion	413,809	827,235
Non-current portion	-	-

All amounts recorded in unearned revenue are non-refundable.

14. Loans and borrowings

Bank loan

The Company currently has no bank debt. On July 7, 2017, the Company amended its operating demand loan with a Canadian chartered bank to increase its borrowing availability to CAD $1.5 million from $250,000. The Line of Credit continues to bear interest at Canadian chartered bank prime plus 1.5%. Security includes specific accounts receivable, a guarantee under the Export Development Canada's Export Guarantee Fund and a general security agreement including a security interest in all personal property. This amendment released the GIC of $250,000 previously pledged as security.

Government loans

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, 2017, the Company had received contributions totaling $1,080,658 (2016: nil).

Under SADI, the Company has, at December 31, 2017, an outstanding repayable balance of $1,626,814, compared to $1,730,582 at December 31, 2016. 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 carrying value of the SADI and WINN loans as at December 31, 2017 and 2016 and changes during these years is presented below.

	2017 SADI $	2017 WINN $	2017 Total	2016 SADI $	2016 WINN $	2016 Total
Balance January 1	1,072,641	-	1,072,641	984,507	-	984,507
Contributions received	-	1,080,658	1,080,658	-	-	-
Grant portion	-	(318,310)	(318,310)	-	-	-
Interest accretion	193,805	29,910	223,795	178,368	-	178,368
Repayment	(103,767)	-	(103,767)	(90,234)	-	(90,234)
Balance December 31	**1,162,679**	**792,338**	**1,955,017**	**1,072,641**	**-**	**1,072,641**
Less current portion	112,578	-	112,578	97,895	-	97,895
Non-current portion	1,050,101	792,338	1,842,439	974,746	-	974,746

Debentures

The face value of the convertible debentures issued December 23, 2010 ($3,039,000) was redeemed in full plus accrued interest on December 23, 2016. Redeemable debentures were redeemed on June 30, 2016 for $2,321,000 which included a 10% premium, plus accrued interest. There were no debentures issued, redeemed or outstanding in 2017.

15. Operating leases

Operating lease rentals are payable as follows:

	Premises $
2018	462,678
2019	462,678
2020	462,678
2021	77,113
Total	**1,465,147**

Operating lease payments made in 2017 totaled $458,145 (2016: $453,900).

16. Provisions

Product warranty	**2017** **$**	**2016** **$**
Balance January 1	549,335	263,596
Provision made during the period	15,496	302,654
Provision re-evaluation	(452,328)	-
Provision used during the period	(20,790)	(16,915)
Balance December 31	**91,713**	**549,335**

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

17. 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, 2016	17,347,764	53,895,046
Exercise of employee options	5,405	18,103
Warrants issued	-	(1,139,934)
Common shares issued (net)	3,391,008	4,741,431
Balance December 31, 2016	20,744,177	57,514,646
Consolidation rounding	(11)	-
Exercise of employee options	123,430	379,396
Exercise of warrants	191,021	515,183
Balance December 31, 2017	**21,058,617**	**58,409,225**

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 2017 option and warrant exercises resulted in the Company issuing a total of 314,451 shares for total proceeds of $538,423 including:

	Quantity	Price	Proceeds
Share options	22,500	1.65	37,125
Share options	20,000	1.85	37,000
Share options	30,930	1.90	58,767
Share options	20,000	2.20	44,000
Share options	30,000	2.50	75,000
Warrants	191,021	1.50	286,531
Total	**314,451**		**538,423**

Stock option plan

The Company grants stock options to its directors, officers, employees and consultants. The following stock options were granted in 2017:

- 5,000 stock options to a consultant. The options will expire December 31, 2020 and have an exercise price of $2.55 per share and vested immediately upon grant.
- 3,660,211 stock options to employees, officers and directors under the stock option plan. The stock options will expire December 31, 2020, and have an exercise price of $2.20 per share and vested immediately upon grant.
- In the fourth quarter of 2017 the Company granted a total of 95,000 stock options to two employees under the stock option plan. The stock options will expire December 31, 2021 and have an exercise price of $2.10 per share. The options will vest on November 3, 2018.

All outstanding options to employees were granted at an exercise price not less than fair market value of the stock on the date of issuance.

The Company has a policy of reserving up to 10% of the outstanding common shares for issuance to eligible participants. As at December 31, 2017, there were 2,105,862 (2016: 2,074,417) common shares reserved for this purpose.

A summary of the Company's outstanding stock options as at December 31, 2017 and 2016 and changes during these years is presented below.

	2017		2016	
	Number of options	Weighted average exercise price $	Number of options	Weighted average exercise price $
Outstanding, January 1	863,337	2.60	873,630	3.19
Options granted	391,021	2.21	370,482	1.90
Options exercised	(123,430)	2.04	(5,405)	2.23
Options expired	(242,430)	3.90	(375,370)	3.27
Outstanding and exercisable, December 31	**888,498**	**2.17**	**863,337**	**2.60**
Unvested options	95,000	2.10	-	-
Outstanding, December 31	**983,498**	**2.16**	**863,337**	**2.60**

Weighted average life remaining for the options outstanding and exercisable is 2.13 years. The exercise prices for options outstanding at December 31, 2017 were as follows:

	All options		Exercisable options	
Exercise price:	**Number**	**Weighted average remaining contractual life (years)**	**Number**	**Weighted average remaining contractual life (years)**
$1.65	25,000	1.0	25,000	1.0
$1.85	5,000	2.0	5,000	2.0
$1.90	296,432	2.0	296,432	2.0
$2.10	95,000	4.0	-	-
$2.20	335,791	3.0	335,791	3.0
$2.50	201,275	1.0	201,275	1.0
$2.55	5,000	3.0	5,000	3.0
$2.75	20,000	2.0	20,000	2.0
Total	**983,498**	**2.1**	**888,498**	**2.3**

The weighted average fair value of the options granted during the year that were valued using the Black-Scholes option pricing model was $1.10 (2016: $1.00). The fair value of the options granted and valued using the Black-Scholes option pricing model were valued with the following weighted average assumptions:

	2017	**2016**
Risk-free interest rate	1.05%	0.61%
Expected life (years)	3.52	3.57
Volatility in the price of the Company's common shares	70%	73%
Dividend yield rate	0.00%	0.00%

Warrants

	Number of warrants	**Weighted average exercise price** $	**Value** $
Outstanding January 1, 2016	-	-	-
Warrants issued	1,695,504	2.50	886,748
Agent warrants issued	211,517	1.50	253,186
Outstanding December 31, 2016	1,907,021	2.39	1,139,934
Warrants exercised	(191,021)	1.50	(228,652)
Outstanding December 31, 2017	**1,716,000**	**0.23**	**911,282**

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.

18. Earnings per share

Basic earnings per share

The calculation of basic and diluted earnings per share for the year ended December 31, 2017 was based on a weighted average number of common shares outstanding of 20,926,589 (basic and diluted) (2016: 19,507,065 (basic) and 19,541,958 (diluted). The calculation of diluted earnings per share did not include stock options of 983,498 (2016: 828,295) and 1,716,000 warrants (2016: 1,850,769) because they would be anti-dilutive.

19. Revenue

	2017	2016
	$	$
Voice and data services	4,312,701	4,375,138
AFIRS sales	4,600,520	3,931,607
Parts sales	4,951,616	5,808,491
Services	153,913	215,955
Total	**14,018,750**	**14,331,191**

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.

20. Operating segments

The Company has one operating segment.

Geographical Information

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

	For the year ended December 31	
	2017	2016
	$	$
North America	7,683,296	9,007,719
South / Central America	442,603	658,319
Africa	774,407	610,886
Middle East	873,546	987,750
Europe	333,152	286,489
Australasia	819,153	719,763
Asia	3,092,593	2,060,265
Total	**14,018,750**	**14,331,191**

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

Major customers

Revenues from the three largest customers represent approximately 37.5% of the Company's total revenues for the year ended December 31, 2017 (2016: 47.6%).

21. 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 2016.

22. Distribution expenses

	For the year ended December 31	
	2017	2016
	$	$
Salaries and benefits	2,361,046	3,255,326
Stock based compensation	152,272	97,067
Contract labour	881,837	498,106
Office	429,294	416,733
Travel	601,172	562,645
Equipment & maintenance	53,712	25,006
Depreciation	34,438	41,580
Marketing	268,033	113,879
Other	169,667	(103,303)
Total	**4,951,471**	**4,907,039**

23. Administration expenses

	For the year ended December 31	
	2017	2016
	$	$
Salaries and benefits	1,326,548	1,589,395
Stock based compensation	281,675	228,058
Contract labour	431,423	172,014
Office	305,694	289,311
Legal fees	76,446	166,461
Audit and accounting	192,452	141,650
Investor relations	158,931	153,580
Brokerage, stock exchange, transfer agent fees	40,350	61,665
Travel	102,348	119,143
Equipment and maintenance	131,340	79,187
Depreciation	59,334	9,704
Other	51,988	77,488
Total	**3,158,529**	**3,087,656**

24. Research, development and certification engineering expenses

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

	For the year ended December 31	
	2017	2016
	$	$
Salaries and benefits	2,093,261	1,562,383
Stock based compensation	25,448	37,220
Contract labour	276,669	315,198
Office	127,221	119,530
Travel	90,911	54,595
Equipment and maintenance	125,357	111,077
Components	165,510	57,171
SRED tax credit	(116,514)	(211,790)
Depreciation	49,721	15,395
Government grants	(318,310)	-
Warranty settlement	-	540,450
Total	**2,519,274**	**2,601,229**

25. Finance income and finance costs

	For the year ended December 31	
	2017	2016
	$	$
Interest income on bank deposits	15,756	30,368
Finance income	**15,756**	**30,368**
Bank service charges	38,807	37,331
Net foreign exchange loss	115,979	11,023
Interest expense	681	2,736
Government grant interest accretion	223,795	178,369
Debenture interest expense and accretion	-	509,113
Debenture issuance cost amortization	-	5,295
Finance costs	**379,262**	**743,867**

26. Income tax expense

Current Tax Expense

	2017 $	2016 $
Current income tax expense	8,905	10,714
Deferred income tax expense	-	-
	8,905	**10,714**

Deferred Tax Expense

Unrecognized deferred tax assets

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

	2017 $	2016 $
Capital assets	202,845	163,565
Intangibles	71,257	71,257
Inventory	2,157	4,880
Non-capital loss carry-forwards	9,609,044	9,445,413
Share issue costs	55,903	74,706
Scientific research and experimental development expenditures	8,345,900	8,150,696
	18,287,196	**17,910,517**

The Company has non-capital losses for income tax purposes of approximately $35,520,188 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	195,896
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
2037	1,623,930
Total	**35,520,188**

Reconciliation of effective tax rate

	2017 $	2016 $
Income (loss) before tax	(1,746,710)	1,723,432
Tax Rate	27%	27.0%
Expected income tax recovery	(471,612)	465,327
True up from prior year	(42,456)	(225,317)
Non-deductible expenses	13,361	13,431
Stock based compensation	124,036	94,209
Change in unrecognized temporary differences	385,582	(336,936)
	8,905	**10,714**

27. 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 27.2% (2016: 38.2%) of the Company's 2017 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, 2017	0-30 days	31-60 days	61-90 days	91+ days	Total
	$	$	$	$	$
Accounts receivable	1,297,204	195,228	40,177	510,891	2,043,500
Impairment	(2,012)	-	(3,522)	(150,715)	(156,249)
Net receivable	**1,295,192**	**195,228**	**36,655**	**360,176**	**1,887,251**

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**

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, 2017 and 2016 was:

	2017	2016
	$	$
Balance, January 1	582,712	537,469
Provision	160,484	45,243
Amounts written off	(586,947)	-
Balance, December 31	**156,249**	**582,712**

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, 2017	**< 2 months $**	**2-12 months $**	**1-2 years $**	**2-5 years $**	**> 5 years $**	**Total $**
Accounts payable	1,340,510	-	-	-	-	1,340,510
Compensation and statutory deductions	46,763	274,647	27,000	-	-	348,410
Accrued liabilities	37,990	113,479	11,658	16,516	-	179,643
Loans and borrowings	-	119,333	137,234	1,628,685	822,220	2,707,472
Total	**1,425,263**	**507,459**	**175,892**	**1,645,201**	**822,220**	**4,576,035**

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**

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 $138,744 (2016: $141,823) and a strengthening of the Canadian dollar would decrease net earnings by approximately $138,744 (2016: $141,823).

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, 2017, working capital denominated in U.S. dollars was approximately positive $878,991 (2016: positive $1,410,075). As a result, a 1% weakening of the Canadian dollar would increase net earnings by approximately $8,790 (2016: $14,101) and a strengthening of the Canadian dollar would decrease net earnings by approximately $8,790 (2016: $14,101).

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, 2017 and 2016 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

As the WINN and SADI contributions are repayable loans at below market rates, the carrying amounts have been determined by employing a discount rate based on debt market conditions as well as factors specific to the Company's operations and financial position. The fair values of financial assets and all other 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.

28. Related parties

FLYHT appointed an interim CFO from June 5 to November 5, 2017. The services were provided by a company controlled by a director of FLYHT. No similar services were contracted during 2016. All of the transactions with the related party were at exchange amounts that approximated fair value and were supported by a third party receipt.

	For the three months ended December 31, 2017		**For the year ended December 31**	
	2017	**2016**	**2017**	**2016**
Amounts included in:	**$**	**$**	**$**	**$**
Contract labour	19,200	-	83,200	-
Accounts payable and accrued liabilities	-	-	-	-

Transactions with key management personnel

Key management personnel include 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:

	2017	**2016**
	$	**$**
Salary	1,018,521	1,071,619
Director fees	203,551	215,869
Variable compensation	132,500	161,000
Retiring allowance	112,500	-
Share-based payments	350,095	226,813
Short-term employee benefits	59,956	190,737
Total	**1,877,123**	**1,866,038**

Directors of the Company control 3.9% (2016: 3.8%) of the voting shares of the Company.

Subsidiaries

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

29. 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.

30. Subsequent events

In Q1 2018, the Company received contributions totaling $317,195 under the WINN agreement, bringing the total received to date to $1,397,853.

In April 2018, the Company applied to the TSX for an amendment of the exercise price of the share purchase warrants that were originally issued on May 12, 2016 from $2.50 to $1.60 per share purchase warrant. The warrants are set to expire on May 12, 2018.

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

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Doug Marlin	President, Marlin Ventures Ltd.
Jack Olcott	President, General Aero Company
Mark Rosenker	United States Air Force (retired)
Paul Takalo	Director

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Alana Forbes	Chief Financial Officer
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