FLYHT

INSIGHT • ACTION • CONTROL

FLYHT AEROSPACE SOLUTIONS LTD.

ANNUAL REPORT 2018

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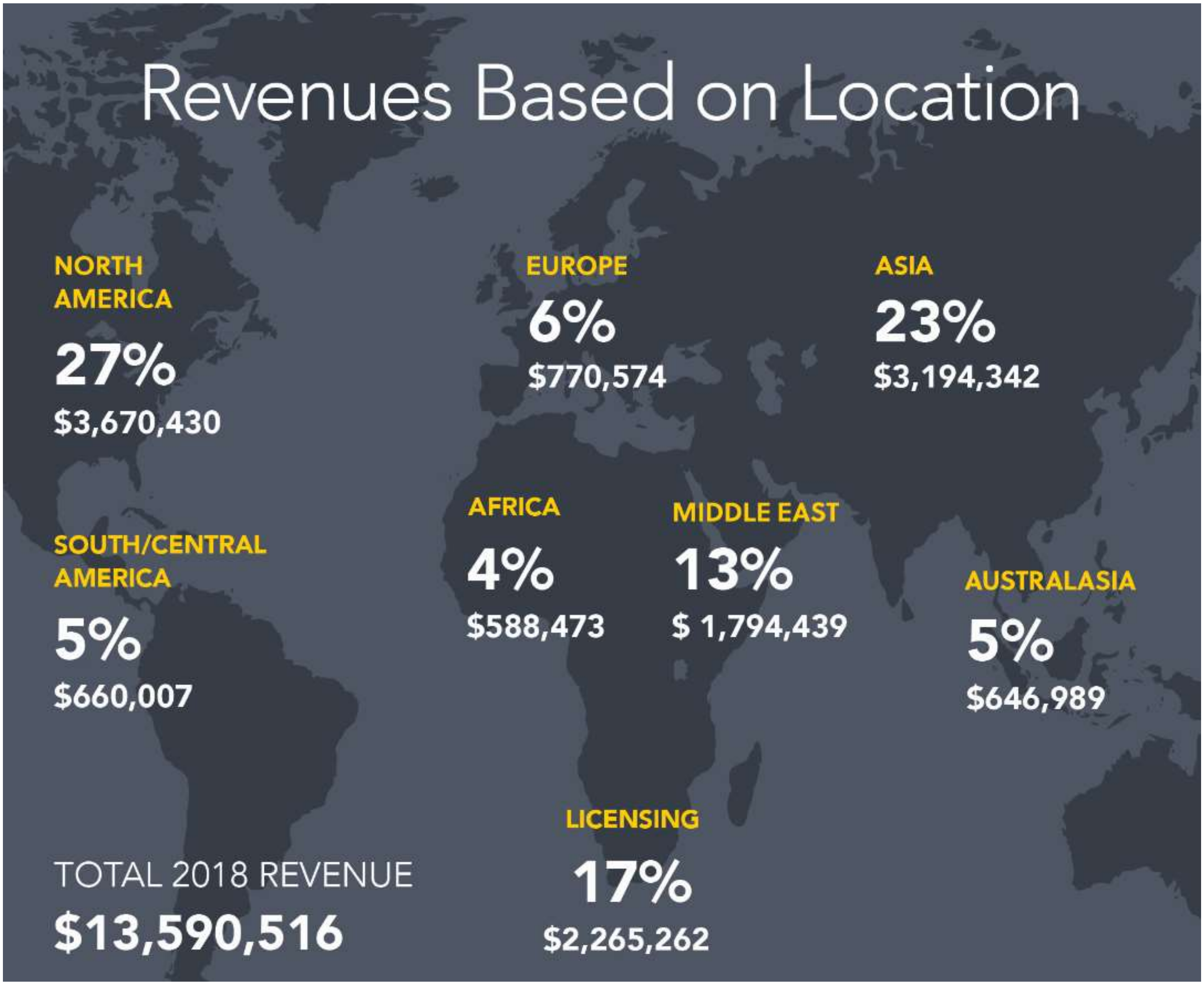
Commonly used Financial Terms and Aviation Acronyms

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
Flightlink: An Iridium Satellite Data Unit
GAAP: Generally Accepted Accounting Principles
GAMECO: Guangzhou Aircraft Maintenance Engineering Company Limited
IATA: International Air Transport Association
ICAO: International Civil Aviation Organization
IFRS: International Financial Reporting Standards
MD&A: Management Discussion and Analysis
OEM: Original Equipment Manufacturer
PAC: Panasonic Avionics Corporation
PWS: Panasonic Weather Solutions
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
TAMDAR: Tropospheric Airborne Meteorological Data Reporting
TCCA: Transport Canada Civil Aviation
WINN: Western Innovation Initiative
YTD: Year-to-date


Revenues Based on Location
NORTH AMERICA
27%
$3,670,430
EUROPE
6%
$770,574
ASIA
23%
$3,194,342
SOUTH/CENTRAL AMERICA
5%
$660,007
AFRICA
4%
$588,473
MIDDLE EAST
13%
$ 1,794,439
AUSTRALASIA
5%
$646,989
LICENSING
17%
$2,265,262
TOTAL 2018 REVENUE
$13,590,516

LETTER TO SHAREHOLDERS

FLYHT's highlights for 2018 included the acquisition of the assets of Panasonic Weather Solutions (PWS) in Littleton Colorado from Panasonic Avionics Corporation and the successful completion of a live data streaming trial as part of the 2018 Boeing ecoDemonstrator Project. Financially, FLYHT continued to see Hardware Sales and Software as a Service (SaaS) replace licensing as the primary revenue sources. FLYHT's sales order backlog finished the year at over $60 million and the contracted sales for the year 2018 were over $33 million. Looking forward to 2019, we will complete the integration of PWS assets, manage delivery of enhanced weather products to AirAsia, and we expect to demonstrate continued success in China with the maturing Satcom mandate there. We are expanding our Original Equipment Manufacturer (OEM) customer opportunity pipeline by winning new positions and are extremely well positioned for changes in the industry driven by regulatory change. We anticipate 2019 will be a very exciting year.

FLYHT acquired the assets of PWS in early October 2018. The details of this unique acquisition can be found in the FLYHT Press Release dated October 10, 2018 and in the Marketing section of this report. The practical implications are that FLYHT will be paid a baseline US$3.3 million to add a group of very talented USA employees, to receive valuable real-time weather collecting intellectual property and enterprise systems, and to add $20 million of contracted backlog with 12 airline customers and Synoptic Data PBC (Synoptic). The most immediate impact can be found in the Q4 2018 SaaS revenues which more than doubled: +126% versus Q4 2017 and +97% versus Q3 2018.

Augmented hardware and corresponding SaaS revenues will begin in Q2 2019 as we start shipping PWS acquired backlog. Also, FLYHT will continue to provide TAMDAR observations to the USA National Mesonet Program funded by the National Atmospheric and Oceanographic Administration (NOAA). FLYHT will grow the TAMDAR installation footprint and increase weather revenue opportunities with various international meteorological agencies through our sales partner, Synoptic. Finally, we engaged PWS executive Jeffrey Rex to lead our Sales and Marketing team.

FLYHT conducted the Boeing ecoDemonstrator Program early in 2018 and jointly published the results with Boeing and Embraer in August at the Airlines Electronic Engineering Committee (AEEC) Global Aircraft Tracking (GAT) Working Group meeting in Kelowna, Canada. The three partners concluded that "existing, commercially available equipment and network services (FLYHT's AFIRS and Inmarsat SwiftBroadband) are suitable for providing distress flight data and audio streaming capabilities that support ICAO objectives."

This was the first time the entire feed for an aircraft's Flight Data Recorder (FDR) has been streamed over a satellite network for the duration of a flight, thereby validating the Black-Box-in-the-Cloud use case. Additional first-time milestones included cockpit audio streaming, and the concurrent triggered transmission of historical FDR and cockpit audio data with real-time data and audio. Management is confident that this positive trial result, the FLYHTStream Triggered Data Streaming Patent issued in China, United States and Canada (pending elsewhere); and FLYHT's selection as Inmarsat's inaugural Aviation Certified Application Provider (CAP) for Inmarsat's new SwiftBroadband-Safety services, has FLYHT well positioned to provide solutions to satisfy the upcoming January 2021 ICAO regulations regarding Timely Recovery of Flight Recorder Data (Modifications to Annex 6, Amendment 40).

FLYHT is focused on multiple initiatives in 2019. We are focused on winning new OEM positions. We are expanding our weather products portfolio as a result of interactions with AirAsia. We are developing next generation products with the aid of our second Western Innovation Initiative (WINN) interest free loan of $2.76 million. FLYHT remains very engaged in China where the CCAR 121 Rev.5 2019 deadline creates opportunities to capture more carriers for Satcom, and ultimately SaaS services.

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, 2019 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, 2018 and 2017 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, 2018 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 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 performance and profitability. 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 and the letter to the shareholders accompanying this discussion includes certain statements that may be deemed “forward-looking statements” or “forward-looking information” 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.

Forward-looking information is based on the opinions and estimates of management at the date the statements are made and are founded on the basis of expectations, assumptions and hypotheses made by the Company, including, but not limited to, the following: projected costs, future plans, projected revenues, objectives of management for future operations, trends in the airline industry, the global financial outlook, expanding markets, foreign exchange rate outlooks, sales projections, cost increases and/or decreases as related to marketing, R&D, administration expenses. The forward-looking information included in this this discussion and the letter to the shareholders accompanying this discussion has been prepared using assumptions (all of which are supportable and reflect the Company’s planned courses of action for the next 12 months) as to the *most probable* set of economic conditions. Such assumptions are consistent with the purpose of the information but are not necessarily the most probable in management’s judgement. 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. The forward-looking information has been provided to the readers to assist in assessing the impact of the information disclosed herein on the Company and such forward-looking information may not be appropriate for other purposes. We undertake no duty to update any of the forward-looking information to conform such information to actual results or to changes in our expectations except as otherwise required by applicable securities legislation. Readers are cautioned not to place undue reliance on forward-looking information.

FLYHT Overview

FLYHT's mission is to improve aviation safety, efficiency and profitability. Globally, and for more than 20 years, airlines, leasing companies, fractional owners and original equipment manufacturers have installed FLYHT's differentiated aircraft and enterprise-based solutions to deliver real-time, flight-deck, satellite connectivity for tracking, health monitoring, and streaming of operational, maintenance and weather data. FLYHT is publicly traded as FLY in Canada on the TSX.V; and as FLYLF in the USA on the OTCQX. FLYHT is based in Calgary, Canada with an office in Littleton, Colorado and is an AS9100 Quality registered company. For more information visit www.flyht.com.

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 flight data recorder (aka the "black box"). AFIRS sends this information through satellite networks 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.

UpTime is an enterprise server that communicates with AFIRS through satellite connectivity and serves our customers with real-time applications. Uptime was originally implemented on a fixed server and some of FLYHT's customers still receive services via redundant servers located in different cities across Canada. In 2017, FLYHT launched UpTime Cloud and began rehosting and enhancing aspects of the UpTime server onto the Amazon Web Services (AWS) Cloud. FLYHT hosts Cloud instances in different countries according to customer needs and requirements. UpTime provides a user interface for our customers through a secure internet login and provides a means to enable, configure, software upgrade and manage deployed AFIRS units around the globe.

FLYHT sells different service products through the interaction of AFIRS and Uptime. These applications save aircraft operators money, streamline their operations and proactively enhance their safety; which can prevent accidents and save lives. FLYHT's customers purchase these software service products a la carte and typically pay a simple per aircraft, per month fee for the services. Service contracts are typically five years in length with renewal options. As these service products are integrated into our customer's operational and maintenance day to day operations, they are very "sticky," and the resulting customer service churn is low, upselling of additional services is high and customers typically resign for existing services when contracts expire.

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 has been awarded Canadian, U.S. and Chinese patents for this data streaming technology, pending in other countries.

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. Over time, FLYHT intends to migrate customers to AirMap, described in the FLYHTWeather section below.

FLYHTHealth™

Consists of three different but related functions: automated engine trend reporting, real-time engine and airframe exceedance monitoring and remote, real-time diagnostics. Engine trend reporting automates the delivery of required engine trend data to engine manufacturers and third-party maintenance support companies to satisfy engine warranty requirements. Exceedance monitoring keeps watch over thousands of aircraft data parameters and creates automated exceedance reports when an out of bounds condition exists on the aircraft. 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 diagnostics 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 and phase of flight 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™

FLYHTFuel is a powerful program that focuses attention on areas of greatest savings potential to provide information necessary in making operational decisions. 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. This 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.

FLYHTWeather™

FLYHTWeather is the combination of Panasonic Weather Solutions' FlightLink™, TAMDAR™, and AirMap™ products. With plans to integrate PWS' AirMap with its own UpTime server, FLYHT intends to create a best-of-breed situation and tracking service. This solution will take advantage of the benefits of the Company's patented and unique real-time aircraft exceedance monitoring, engine trending, flight data recorder streaming, fuel training modules and "Virtual Cockpit" capabilities. More detail on the systems is below.

FlightLink

FlightLink is an Iridium enabled satellite communication terminal and provides Satcom to the flight deck and connects to the TAMDAR device to collect and transmit real-time weather and aircraft tracking and aircraft fuel data.

TAMDAR

Tropospheric Airborne Meteorological Data Reporting (TAMDAR) is a unique sensor installed on aircraft that captures temperature, pressure, winds aloft, icing, turbulence and relative humidity. It bundles the data with GPS (Global Positioning System) data and transmits the information, in real-time, over satellite networks. Like the data traditionally gathered by worldwide weather balloons, this information is used to update weather models. Unlike weather balloons, TAMDAR collects the data continuously and in real-time. TAMDAR technology is protected by several U.S. and worldwide patents, and the relative humidity data, gathered throughout an aircraft's flight, makes these weather soundings particularly valuable to meteorologists.

AirMap

The AirMap technology enhances the FLYHTLog and FLYHTASD products, including flight tracking, Out-Off-On-In (OOOI) messages and an Aircraft Situational Display (ASD). Additional capabilities include an ACARS communications function for pilots, plus the ability to ingest flight plans and provide warnings when aircraft deviate from plan or exhibit low fuel relative to plan.

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.

Acquisition of Panasonic Weather Solutions Assets

In October 2018, FLYHT acquired the assets of Panasonic Weather Solutions (PWS) based in Littleton, Colorado. Panasonic Avionics Corporation (PAC) had invested significant monies into this non-core business which augmented their dominant position in the In-Flight Entertainment (IFE) avionics space. PWS consisted of two functional components, an aviation electronics solution provider based in Littleton, CO and secondly a weather forecasting and modelling solution provider based in Raleigh, NC. Littleton was focused on building Tropospheric Airborne Meteorological Data Reporting (TAMDAR) sensors and Iridium-based FlightLink communication units, selling these to airline customers, creating the necessary STCs for installing the equipment, and delivering software solutions for real-time tracking and flight plan deviation reporting for airlines in an enterprise product called AirMap. The weather data which was collected from TAMDAR sensors was delivered to Raleigh where it was used to build improved atmospheric predictive models, sold to government and commercial agencies.

Panasonic Corporation and PAC together paid US$280M in fines to resolve foreign corrupt practices act offences in April of 2018 for violations (see U.S. Securities and Exchange Commission Press Release dated April 30, 2018). Prior to this, the leadership changes were made, and strategies were re-evaluated. A decision was made to sell the PWS business. FLYHT was contacted during the initial business offering and FLYHT made PAC aware that FLYHT was interested in the assets associated with the Littleton based operations. Ultimately this was agreed to in an asset transfer which was closed in October 2018.

The assets FLYHT acquired include among other things, 27 employees; 10 service contracts with airlines in North America, Europe and Southeast Asia, including AirAsia Berhad; an Iridium Value Added Reseller (VAR) license, and a Federal Aviation Administration Parts Manufacturer Approval (PMA) capability; the technology and intellectual property for the FlightLink™ Iridium Satellite Data Unit and Tropospheric Airborne Meteorological Data Reporting (TAMDAR™) sensor; and a weather observation contract through Synoptic Data PBC, supplying weather data observations to NOAA (the National Oceanic and Atmospheric Administration).

Backlog business that transferred to FLYHT totaled $20M. FLYHT received contracts with 10 airlines, including a contract with Kuala Lumpur based AirAsia to expand the FlightLink/AirMap/TAMDAR hardware installations and monthly services from 90 to 190 total A320 aircraft. (See Press Release dated December 10, 2018). Backlog also includes the contract with Synoptic that was novated to FLYHT, which participates in the NOAA/National Weather Service National Mesonet Program and pays US$2M per year for existing TAMDAR weather observations.

Pursuant to a transition agreement between the parties which ends March 31, 2020 (the “Transition Period”), FLYHT and PAC will work closely together to complete several ongoing FlightLink and TAMDAR deployment programs, while also providing Tier 1 and warranty support via PAC’s Customer Performance Center and Panasonic Technical Services’ facilities. This Transition Period will give FLYHT time to integrate business and operational functions between its Calgary, Alberta and PWS’ Littleton, CO locations. In addition, to keep the asset acquisition cash-flow neutral to FLYHT during this period, PAC will pay FLYHT a subsidy of USD$3.3 million. FLYHT received the first quarterly payment of US$742 thousand in late December 2018. Depending whether the acquired contracts meet established income targets, the supplemental payment may increase to US$4.3 million (See Press Release dated October 10, 2018). Pursuant to the terms of the acquisition of PWS assets and the transition agreement, FLYHT payed no monetary consideration to PAC for the PWS assets.

FLYHT has been actively integrating the operations from the assets of PWS as a part of its “OneFLYHT” program, with a great deal of success, including achieving Parts Manufacturing Approval from the FAA for the Littleton facility and PWS products. This provides FLYHT the right to manufacture and ship the $20+ million in backlog FlightLink and TAMDAR hardware and monthly services which were acquired with PWS. This PMA approval was received more than a month earlier than expected.

Also completed as part of the “OneFLYHT” integration is the FAA reissuing the six (6) PWS Supplemental Type Certificates (STCs) for FlightLink and TAMDAR products to FLYHT. FLYHT also received FAA approval to issue minor changes to FLYHT FAA STCs.

FLYHT will continue to install the significant sales contract backlog included with this asset transfer according to customer provided schedules. This transaction is expected to almost double (1.74x) FLYHT’s current overall revenue (adding approximately USD$8.4 million at margins of 41%) and more than double (2.47x) FLYHT’s current SaaS revenues (adding approximately USD$5.2 million at 52% margin), when calculated on an annualized basis at the end of the Transition Period (assuming the install schedules are completed as currently anticipated). The asset acquisition plan anticipates new revenue of approximately USD$11.7 million contributing 45% gross margin during the Transition Period. It is important to note that during the Transition Period, FLYHT will need to increase the number of worldwide TAMDAR installations to preserve the total planned weather observation related revenues, which at approximately USD$3 million represents 46% of SaaS revenue increases during such period. Also, FLYHT will need to earn additional business and/or reduce expenses related to these new assets and operations for them to add positively to FLYHT’s income.

Boeing ecoDemonstrator Program

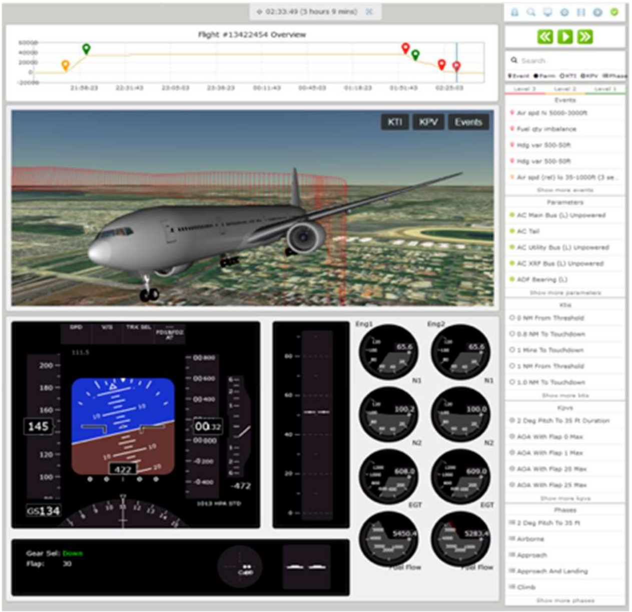
FLYHT is extremely well positioned to provide solutions for mandates created as a result of the AF447 and MH370 aircraft disasters. ICAO published updated Standards and Recommended Practices (SARPs) which have been introduced into ICAO Annex 6 Part 1 regarding Flight Recorder Data Recovery and Location of an Aircraft in Distress. These new SARPs specify capabilities for operators that began to take effect in 2018. Of particular interest for FLYHT’s technology is the requirement for Timely Recovery of Flight Recorder Data.

FLYHT holds a patent for the triggered streaming of flight data over satellite communication channels through autonomous trigger, or manually by the pilot or ground crew. ICAO is providing additional guidance in the ICAO Doc 10054 “Manual on Location of Aircraft in Distress and Flight Recorder Data Recovery,” where they indicate that two different solutions comply with the timely recovery of flight recorder data: (i) Satellite Data Streaming and (ii) Automatic Deployable Flight Recorder.

FLYHT was uniquely selected by Boeing to conduct a Tracking, Locating, and Data Recovery (TLDR) trial as part of their 2018 ecoDemonstrator program to evaluate the ability to meet the Autonomous Distress Tracking and Timely Access to Flight Recorder Data components of the new ICAO SARPs. FLYHT provided and Boeing installed the AFIRS 228S product in the ecoDemonstrator along with a FLYHT provided digital cockpit audio microphone (CAM) which connected to the AFIRS equipment via an ARINC 429 bus. The FLYHT equipment was configured to stream the ARINC 717 data and the cockpit audio over both SwiftBroadband and Iridium networks to FLYHT’s Uptime Enterprise server.

FLYHT demonstrated state-of-the-art animations from the real-time data streams including an animation of the B777 from the real-time attitude and terrain information from the aircraft data stream and location information. Flight deck instrumentation was updated real-time via the AFIRS FLYHTStream while the cockpit audio was also streaming - creating a “Virtual Cockpit.” The flight data from the flight data recorder was accessible via Uptime and each individual FDR parameter could be dragged into an analysis window for real-time analysis.

The trial was conducted with Boeing and Embraer and the results were captured in a joint Whitepaper entitled, “Analysis of Flight Data Streaming Trials on the Boeing 2018 EcoDemonstrator,” which was published at the AEEC meeting in August in Kelowna, CA.



The joint conclusion reached was as follows:

“The trial has shown that existing, commercially available equipment and network services (FLYHT’s AFIRS paired with an Inmarsat SwiftBroadband system) are suitable for providing distress flight data streaming capabilities that support the ICAO objectives. The trial concludes that Inmarsat SwiftBroadband provided excellent capability for data and voice streaming that supports the ICAO document 10054 recommendations. Additional study and solution hardening are needed to demonstrate robustness in commercial operation; however, it is the recommendation of the trial team that this technology is worthy of further development and trials in a commercial setting.”

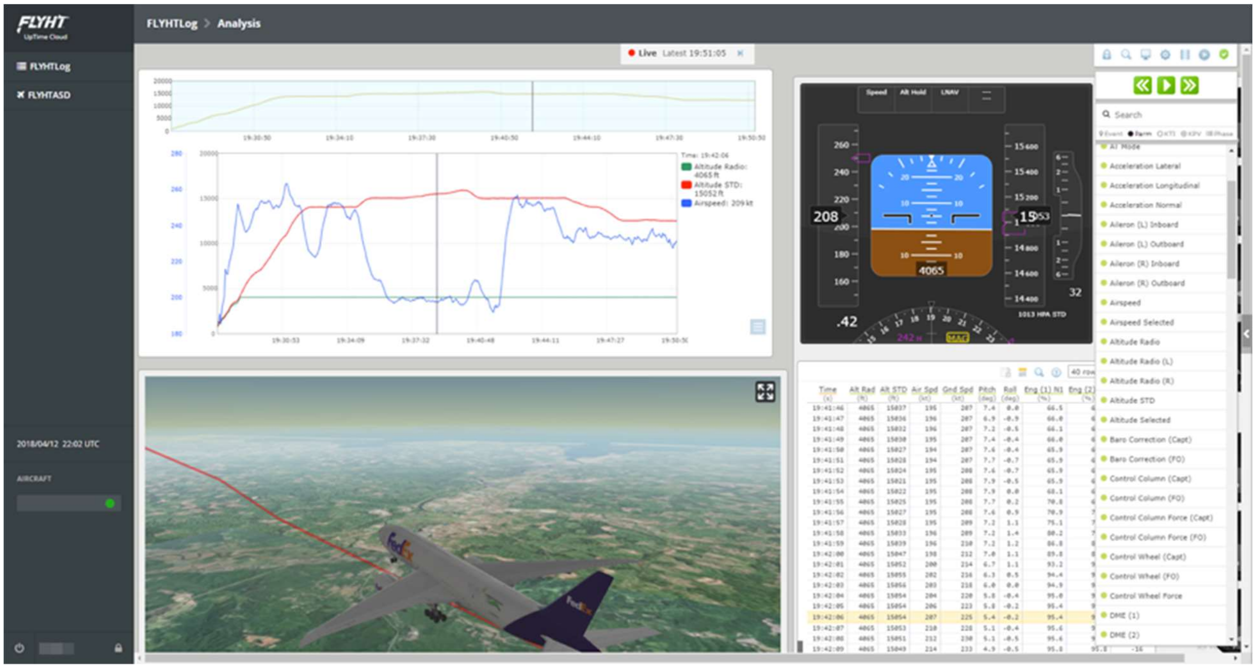
Core findings include:

Capability of current equipment (with suitable modifications) to provide distress flight data streaming capabilities that support the ICAO objectives.

Excellent capability of broadband safety services to support data and voice streaming that supports the ICAO document 10054 recommendations.

That even limited bandwidth options such as the Iridium SBD services used in these tests can provide useful flight data streaming capability. In this case it was to stream sufficient aircraft dynamics parameters to allow near real time display and analysis of the aircraft trajectory and flight dynamics.

FLYHT believes that the solution set provided to Boeing and Embraer, based on the existing technological readiness, patent protections, along with the vast STC provisioning will create enormous growth opportunities for FLYHT to satisfy future regulatory implementations of these new ICAS SARPs.



System Approvals

FLYHT holds FAA Parts Manufacturer Approval (PMA), is a TCCA Approved Manufacturer, a TCCA Approved Maintenance Organization (AMO) and an EASA and 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 AS9100 certified with the registrar SAI Global. The Company also holds multiple STCs to make appropriate modifications, such as installing FLYHT's AFIRS, FlightLink and TAMDAR technologies, to an aircraft's approved design.

FLYHT has received STC approvals from TCCA (Canada), FAA (United States), EASA (European Union), CAAC (China), ANAC (Brazil), DGAC (Mexico), SAAU (Ukraine) and ECAA (Egypt) for various aircraft models to address a variety of customer requirements. FLYHT is currently pursuing STC validation from the Federal Air Transport Agency of Russia.

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 and TSOs 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 two delegated engineers, allowing for the approval of changes to the systems and electrical design aspects of an airworthiness certification. If an issue is encountered during the STC or TSO process, the delegate has the authority to approve necessary changes and continue the process without the involvement of an external party.

Further, for FLYHT-held FAA STCs, FLYHT has a Minor Change Agreement with the FAA which allows a range of changes to be made to the STC data package without direct involvement from the FAA.

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 by opening an application with the regulator before an STC package is created. The data package is prepared, including engineering documents outlining how FLYHT equipment is substantiated and installed on the aircraft, and the package is submitted to the regulator 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 the regulator, confirming all regulatory requirements have been met and the unit is fit for operation on that aircraft type as designed. From there, the regulator approves the submission and an STC is issued.

To acquire an STC validation from a different national regulator, FLYHT submits an application through a regulator such as 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 approval process will vary depending on aircraft and workloads, but typically take about three to four months through TCCA, with an additional three to eight months if an STC is required from an additional regulator like the FAA or EASA.

STC Chart AFIRS and UpTime

TCCA Canada		FAA USA		EASA EU		CAAC China		ANAC Brazil		
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
P										Airbus A330
	A		A						A	ATR42 -300
	A		I							ATR42 -500
	A		A						A	ATR-72 -100, -200
					A*					ATR42-500 "600 Version" *STC Twenty One
					A*					ATR72-212A "600 Version" *STC Twenty One
A		A		A		A				Boeing B737 -200
A	A	A	A	A	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				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		A				A		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 AFIRS 228 STCs for the Bombardier CRJ- 700, 900, Boeing 737-300, -400, -500 and 737-700, -800 from the DGAC (Mexico). FLYHT has received AFIRS 228 STCs for the Boeing 737-300,-400, -500, -700, -800 and the 767-300 from the State Aviation Administration of the Ukraine (SAAU). An AFIRS 228 application is also in progress with the Federal Air Transport Agency of Russia for the Boeing 767 aircraft.

STC Chart FLYHTWeather

FAA		EASA		DGCA Indonesia		DCA Malaysia		DGAC Mexico		CAA Philippines		CAA Thailand		
TR	FL	TR	FL	TR	FL	TR	FL	TR	FL	TR	FL	TR	FL	
		A*	A*	A*	A*	A*	A*			A*	A*	A*	A*	Airbus A318/A319/A320/A321
		A*												Boeing 757
A*	A*			A*	A*	A*	A*							Boeing 737-700/800/900
A*	A*	A*	A*											Boeing 737Max-8/9
A														DHC-8-100/200/300/400
A								A						EMB 135/145
A								A						EMB ERJ 190-100/200
		A *												EMB ERJ 190-100/200
A														Hawker Beechcraft 1900
A														Saab 340
A	A													Saab 2000

Chart Legend: TAMDAR (TR) or FLIGHTLINK (FL) model, A = Approved, P = Pending, I = In Progress * = Partnered with 3rd party, ‡ = Approval in progress.

Trends and Economic Factors

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

The Aviation Industry in 2018

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 6.5% increase in 2018 compared to 2017.[1] Global freight traffic (measured in FTK) increased by 3.5% in 2018 compared to 2017[2]. This shows broad market growth, though not as robust as was found in 2017.

Results from large commercial aircraft manufacturers were mixed for the first three quarters of 2018. Airbus delivered 800 commercial aircraft in 2018, compared to 718 in the same period of 2017[3]. Boeing delivered 806 airplanes, up from 763 in 2017.[4] Embraer announced the delivery of 90 commercial aircraft and 91 executive jets in 2018 which were in the outlook ranges the company had published.[5] Bombardier delivered 35 commercial aircraft during 2018, down from 56 deliveries in 2017. Bombardier also delivered 137 business aircraft in 2018, which was similar to its performance in 2017 when they delivered 138 business aircraft.[6]

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 and 2018. The Company developed its technology to stream data over the Inmarsat Satellite network for trials with Boeing and Inmarsat.

FLYHT is now in the weather business with the acquisition of Panasonic Weather Solutions (PWS). The PWS product set includes FlightLink, an Iridium Satellite Data Unit, and TAMDAR which is a real time weather sensor which collects weather soundings similar to weather balloon, but is streamed in real time over the Iridium satellite network. Also, particularly valuable is the AirMap situational display which was purpose built for AirAsia and serves as their primary flight display at their aircraft operations center in Kuala Lumpur.

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 Canadian dollar was slightly down relative to the U.S. dollar throughout Q4 2018[7] and the company experienced a positive impact on the Company's revenue and income compared to Q4 2017. As a result of these currency movements, the Company's revenues, which are substantially all denominated in U.S. dollars, were higher than they would have been had the foreign exchange rates not changed. It is the standard of the aviation industry to conduct business in U.S. dollars. While the majority of the Company's 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.

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[1] https://www.iata.org/pressroom/pr/Pages/2019-02-07-01.aspx
[2] https://www.iata.org/pressroom/pr/Pages/2019-02-06-01.aspx
[3] https://www.airbus.com/newsroom/press-releases/en/2019/01/airbus-achieves-new-commercial-aircraft-delivery-record-in-2018.html
[4] https://www.investors.com/news/boeing-deliveries-boeing-orders-2018/
[5] https://embraer.com/global/en/news?slug=1206500-embraer-delivers-181-total-jets-in-2018
[6] https://www.flightglobal.com/news/articles/bombardier-swings-to-318m-profit-in-2018-455794/
[7] https://tradingeconomics.com/canada/currency

Contracts and Achievements for 2018
Contracts*

FLYHT announced US$33.6 million in new sales contracts and contract renewals during 2018. All these contract figures assume that the Company provides services over the full term of these contracts. The by-quarter breakdown of these sales announcements is collected here.

Fourth Quarter

FLYHT announced US$21.1* million in new sales contracts, purchase orders and transition agreement during the fourth quarter of 2018 and gained two new customers and a new Original Equipment manufacturing position (OEM) independent from those new customers and contracts acquired through the acquisition of assets from PWS. These new sales orders included:

- A minimum US$15 million contract with Synoptic Data PBC assuming the Company delivers an annually increasing number of weather-related soundings over the term of the five-year contract by increasing the quantity of TAMDAR installations (See Press Release dated October 24, 2018).
- a US$1.1 million contract with a Chinese airline for FLYHTHealth SaaS (See Press Release dated November 5, 2018).
- A contract with Jambojet in Africa for US$650 thousand for AFIRS hardware and SaaS products FLYHTLog, FLYHTASD and FLYHTHealth (See Press Release dated October 15, 2018).
- An initial order for a new OEM aircraft position along with an order for non-recurring engineering
- An AFIRS order from a previously established OEM
- Additional AFIRS orders from two existing Chinese airline customers
- New technical services orders

Third Quarter

FLYHT announced USD$5.1* million in new sales contracts and purchase orders and gained three new customers in the third quarter:

- An original equipment manufacturer (OEM) selected FLYHT's Automated Flight Information Reporting System (AFIRS™) 228S with Technical Service Order (TSO) C159b for integration to achieve Future Air Navigation System (FANS) certification on an Antonov aircraft for USD$404 thousand dollars.
- One African airline obtained Canada Regional Jet (CRJ) aircraft with AFIRS installed from a previous FLYHT customer enabled UpTime Software as a Service (SaaS) FLYHTLog and FLYHTHealth (Engine Trending, Engine and Airframe Exceedances) services for these aircraft, and purchased FLYHTASD (Aircraft Situational Display) for a total contract value of USD$157 thousand dollars.
- One African customer, who purchased AFIRS 228B units, will enable FLYHTLog and purchase FLYHTASD for a total contract value of USD$312 thousand dollars.
- FLYHT renewed a SaaS contract with an existing Australasian airline for USD$3.1 million. (See Press Release dates July 16, 2018).
- FLYHT renewed a contract for UpTime SaaS and sold additional AFIRS 228B units to an existing Middle Eastern customer for a total contract value of USD$848 thousand dollars.
- FLYHT also sold AFIRS hardware kits, technical services, or data services for a total of USD$235 thousand dollars to the following customers:
    - an existing Canadian lessor;
    - an existing United States lessor;
    - an existing Canadian airline; and
    - an existing Chinese cargo airline.

Second Quarter

FLYHT announced USD$4.45* million in new sales contracts and purchase orders and gained two new customers in the second quarter:

- One European operator who signed an agreement to receive CAN-TSO-159b approved Automated Flight Information Reporting System (AFIRSTM) 228S hardware units with a contract value of USD $360,000 to integrate into their aircraft to achieve Future Air Navigation System (FANS) compliance.

- One Australian operator that enabled FLYHTLog, FLYHTHealth and FLYHTVoice on leased aircraft that they recently received which had AFIRS products installed. This five-year agreement will yield USD $260,200 if services are provided during the duration of the contract.
- FLYHT renewed or expanded contracts for UpTime SaaS for five years for five airlines (based in Africa, Mexico, the Caribbean and Canada) and one lessor with a total contract value of USD $564,360.
- FLYHT renewed and expanded a SaaS contract with a North American airline for USD$1.43 million (See Press Release dated June 7, 2018).
- FLYHT renewed a SaaS contract with a North American airline for USD$1.03 million (See Press Release dated May 22, 2018).
- Also included in the new sales contract amount is an additional order from an existing OEM partner (see release on July 15, 2014) of USD $315,621 for license fees.
- FLYHT sold AFIRS hardware kits or technical services for USD $491,342 to the following existing customers:
  - an existing operator in China,
  - an existing operator in the Middle East, and
  - an existing commercial OEM customer.

First Quarter

FLYHT announced USD$2.9* million in new sales contracts and purchase orders and gained one new OEM position and a new weather customer:

- Ten customers renewed their sales contracts for UpTime data services.
  - The renewal was broad and included operators in Canada, the Middle East, Australia, the Caribbean and Mexico.
  - One operator in the Middle East re-signed for a portion of their fleet through a third-party contract which FLYHT had reported expired last summer.
  - Two of the ten also expanded their fleets with Automated Flight Information Reporting System (AFIRSTM) orders.

- FLYHT also sold AFIRS hardware kits to:
  - a new aerospace and defense Original Equipment Manufacturer (OEM) for integration into one of its airframes,
  - a new global leasing company, and
  - an existing commercial OEM customer.

- Included in new sales contract amounts are additional orders from:
  - an existing OEM partner (see Press Release dated July 15, 2014) for parts with related license fees for delivery, and
  - a new agreement with a large global organization to monetize weather data from certain aircraft.

*Amounts are calculated assuming the Company provides services over the full term of the contracts

Achievements & Activities

FLYHT accomplished several achievements which were identified throughout the year. This section identifies these successes by quarter.

Fourth Quarter

- FLYHT was issued a validation of the Embraer E- 190 AFIRS 228 STC by the FAA.
- FLYHT received approval for a $2.76 million interest-free Western Innovation Initiative (WINN) loan by Western Economic Diversification Canada (See Press Release dated November 27, 2018).

Third Quarter

- Boeing, Embraer and FLYHT jointly released a whitepaper and corresponding presentation, describing the results of the Autonomous Distress Tracking and Timely Recovery of Flight Recorder Data trial (see press release dated September 4, 2018). The whitepaper and presentation are published on the FLYHT Website. (Whitepaper and Presentation Link).
- FLYHT announced the integration of its AFIRS 228 product with Spectralux's ENVOY, FANS over Iridium Solution (see Press Release dated September 13, 2018).
- FLYHT received a Federal Aviation Administration (FAA) Supplemental Type Certificate (STC) for the Company's AFIRS 228 system on the Airbus A319/320/321 family of aircraft from a contracted American certification supplier.

- FLYHT closed a convertible debt financing of $2 million dollars (see Press Release dated July 24, 2018).

Second Quarter

- FLYHT was issued two Supplemental Type Certificates (STC) for AFIRS 228 in the second quarter. FLYHT received the Mexican Civil Aviation Authority (DGAC) STC for the Boeing 737–300/400/500/700/800 series, and the Brazilian Civil Aviation Authority (ANAC) validation of the Transport Canada STC for the Embraer E190-100 series.
- FLYHT announced the issuance of the FLYHTStream patent in Canada, previously issued in the United States and China (see Press Release dated May 30, 2018).
- FLYHT was recognized by Inmarsat PLC. as the first world wide recipient of the Certified Application Provider (CAP) Programme for their Swift Broadband-Safety network (see Press Release dated May 24, 2018).
- FLYHT shipped its 2000th AFIRS unit to Azur Aviation (See Press Release dated April 30, 2018).

First Quarter

- FLYHT was issued five Supplemental Type Certificates (STC) for AFIRS 228 in the first quarter. FLYHT received the European Aviation Safety Agency (EASA) STCs for the Boeing 737– 300/400/500/700/800, the Boeing 757-200 and the Boeing 767-200/300 aircraft. FLYHT was also granted STCs from the Federal Aviation Administration (FAA) for the Boeing 737-900ER and Bombardier CRJ 100, 200, 440, 700, 705 and 900 models.

- The Boeing ecoDemonstrator Program started flying in March and continued into April. FLYHT streamed flight data from the FedEx Express Boeing 777 Freighter to an UpTime Cloud animation which simulates the flight deck instrumentation, displays position on a map and creates a flying aircraft visualization. By also streaming flight deck audio, FLYHT has virtualized the flight deck environment on the ground, enhancing situational awareness and potentially satisfying future regulatory requirements.

Results of Operations

Selected Results

2018	Q4 $	Q3 $	Q2 $	Q1 $
Assets	9,097,270	6,401,513	5,105,186	5,711,684
Non-current financial liabilities	4,420,714	4,385,051	2,246,731	2,117,334
Revenue	4,033,826	3,092,113	3,146,266	3,318,311
Cost of sales	1,775,657	1,344,643	1,075,402	1,328,994
Gross margin	2,258,169	1,747,470	2,070,864	1,989,317
Gross margin %	56.0%	56.5%	65.8%	59.9%
Distribution expenses	2,075,217	1,395,475	1,281,935	1,240,609
Administration expenses	1,258,097	780,899	682,575	530,037
Research, development and certification engineering expenses	789,203	398,275	704,731	739,236
Results from operating activities	(1,864,348)	(827,179)	(598,377)	(520,565)
Depreciation	57,143	34,624	36,588	33,134
Subsidy + bargain purchase	1,861,050	-	-	-
EBITDA*	53,845	(792,555)	(561,789)	(487,431)
Income (loss)	217,954	(953,034)	(649,293)	(582,375)
Income (loss) per share (basic)	0.01	(0.03)	(0.03)	(0.03)
Income (loss) per share (fully diluted)	0.01	(0.03)	(0.03)	(0.03)
2017	**Q4 $**	**Q3 $**	**Q2 $**	**Q1 $**
Assets	6,994,139	6,556,520	7,374,048	7,168,914
Non-current financial liabilities	1,842,439	1,385,440	1,209,206	1,027,848
Revenue	3,450,007	3,221,380	3,242,382	3,781,119
Cost of sales	816,331	1,514,363	1,014,111	1,184,575
Gross margin	2,633,676	1,707,017	2,228,271	2,596,544
Gross margin %	76.3%	53.0%	68.7%	68.7%
Distribution expenses	1,169,069	1,166,972	1,420,236	1,195,194
Administration expenses	747,607	684,651	1,088,709	638,120
Research, development and certification engineering expenses	1,099,869	458,327	399,920	561,158
Results from operating activities	(382,869)	(602,933)	(680,594)	202,072
Depreciation	18,687	26,980	25,093	22,148
EBITDA*	(364,182)	(575,953)	(655,501)	224,220
Income (loss)	(437,318)	(759,447)	(759,374)	119,404
Income (loss) per share (basic)	(0.02)	(0.02)	(0.04)	0.01
Income (loss) per share (fully diluted)	(0.02)	(0.02)	(0.04)	0.01

*See Non-GAAP Financial Measures

Weighted Average Shares Outstanding

	2018 $	2017 $	2016 $
Basic	21,058,855	20,926,589	19,507,065
Diluted	21,132,875	20,926,589	19,541,957

Financial Position

Liquidity and Capital Resource

The Company's cash at December 31, 2018 increased to $2,406,769 from $2,014,135 at December 31, 2017. The Company has an operating demand loan available through a Canadian chartered bank for up to a maximum of $1.5 million CAD or 90% of the Company's receivable balance, drawn either in CAD or USD. The operating demand loan bears interest at the Canadian chartered bank prime plus 1.5% (CAD) or US prime plus 4.5% (USD). 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 facility was undrawn as at December 31, 2018.

At December 31, 2018, the Company had positive working capital of $2,878,024 compared to positive $2,014,662 (restated for IFRS 15) as of December 31, 2017, an increase of $863,362. When non-refundable customer deposits, less deposits and prepaid expenses are excluded from the working capital calculation, the resulting modified working capital at December 31, 2018 would be positive $3,312,792 compared to positive $3,311,442 (restated for IFRS 15) at December 31, 2017.
The Company funded 2018 operations primarily through cash received from sales, contributions from the Western Innovation Initiative (WINN), issue of a convertible debenture, and subsidies paid by PAC from the October 2018 asset acquisition. The Company will continue to receive subsidy from PAC while striving to self-fund operations through 2019.

	2018 $	2017* $	Variance $
Cash and cash equivalents	2,406,769	2,014,135	392,634
Trade and other receivables	3,440,767	1,650,574	1,790,193
Contract assets	395,695	313,634	82,061
Deposits and prepaid expenses	227,065	391,191	(164,126)
Inventory	1,066,946	1,331,893	(264,947)
Trade payables and accrued liabilities	(2,342,754)	(1,874,005)	(468,749)
Customer deposits	(661,833)	(1,687,971)	1,026,138
Contract liabilities	(1,524,894)	-	(1,524,894)
Loans and borrowings	(129,465)	(112,578)	(16,887)
Current tax liabilities	(272)	(12,211)	11,939
Working capital	**2,878,024**	**2,014,662**	**863,362**
Deposits and prepaid expenses	(227,065)	(391,191)	164,126
Customer deposits	661,833	1,687,971	(1,026,138)
Modified working capital*	**3,312,792**	**3,311,442**	**(1,350)**

*See Non-GAAP Financial Measures, 2017 restated for IFRS 15

In 2018 warrant exercises resulted in the Company issuing a total of 10,000 shares for total proceeds of $16,000. No options were exercised in the year.

As at April 10, 2019 FLYHT's issued and outstanding share capital was 21,088,340.

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 hardware units and related services. Additionally, the acquisition of PWS provides the Company the opportunity to realize efficiencies of scale through increasing both service and hardware revenues. SaaS revenues in Q4 2018 were double that in Q3 2018, as a result of the additional customer contracts generating SaaS revenues effective from the date of acquisition forward.

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. The Company has an undrawn credit facility of $1.5 million, $2.97 million in contributions under WINN loans not yet received and if the need arises due to market opportunities, the Company may meet cash-flow 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 Hardware 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, 2018	< 2 months $	2-12 months $	1-2 years $	2-5 years $	> 5 years $	Total $
Accounts payable	1,737,710	-	-	-	-	1,737,710
Compensation and statutory deductions	3,112	343,343	-	-	-	346,455
Accrued liabilities	1,942	240,130	11,658	4,858	-	258,588
Loans and borrowings	-	297,234	629,820	4,194,230	1,003,399	6,124,683
Total	**1,742,764**	**880,707**	**641,478**	**4,199,088**	**1,003,399**	**8,467,436**

Under the Strategic Aerospace and Defence Initiative (SADI), the Company has, at December 31, 2018, an outstanding repayable balance of $1,507,481, compared to $1,626,814 at December 31, 2017. 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. Amounts repaid in 2018 totaled $119,333 (2017: $103,767).

In November 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, 2018, the Company had received contributions totaling $2,137,202 (2017: 1,080,658).

In November 2018, the Company signed a second contribution agreement with Western Economic Diversification Canada for a Western Innovation initiative (WINN) loan, to support development of the next generation of AFIRS hardware and embedded software to address parts obsolescence issues and add new market-driven features. Under the terms of the agreement, a repayable unsecured WINN contribution to the value of the lesser of 44% of the eligible project costs to April 30, 2021 or $2,761,000 will be received. A March 31, 2019 amendment adjusted the end date for eligible project costs to September 30, 2021. The amount is repayable over five years commencing October 1, 2021. At December 31, 2018, the Company had not received contributions under this loan.

A summary of the carrying value of the SADI and WINN loans as at December 31, 2018 and 2017 and changes during these years is presented below.

		2018 $		2017 $
	SADI	**WINN**	**SADI**	**WINN**
Balance January 1	1,162,679	792,338	1,072,641	-
Received	-	1,056,544	-	1,080,658
Grant portion	-	(391,697)	-	(318,310)
Interest accretion	209,397	112,478	193,805	29,990
Repayment	(119,333)	-	(103,767)	-
Balance December 31	**1,252,743**	**1,569,663**	**1,162,679**	**792,338**
Less current portion	129,465	-	112,578	-
Non-current portion	1,123,278	1,569,663	1,050,101	792,338

Convertible Debenture

The Debentures were issued on July 24, 2018 and will mature on July 24, 2021 (if not otherwise converted) and will bear interest at a rate of 8% per annum, which shall be accrued and paid annually in arrears. The Debentures shall be convertible at the option of the debenture holder into common shares of FLYHT (Common Shares) at a conversion rate of $1.30 per share at any time prior to maturity, subject to a forced conversion (at a conversion rate of $1.30 per share) into Common Shares should the closing price of the Company's Common Shares be equal to or exceed $1.80 for 20 consecutive trading days.

769,200 warrants (Warrants) were issued to the purchasers of the Debentures (for every $1.00 principal amount of Debentures acquired pursuant to the offering, Debenture holders received approximately 0.3846 Warrants). Each whole Warrant is exercisable to acquire one Common Share of FLYHT for a period of two (2) years from the date of issuance at an exercise price of $1.45 per share. The Warrants are subject to an acceleration clause, whereby, if after four months and one day following the date the Warrants are issued, the closing price of the Company's Common Shares is equal to or exceeds $1.90 for 20 consecutive trading days (with the 20th such trading date hereafter referred to as the "Eligible Acceleration Date"), the Warrant expiry date shall accelerate to the date which is 30 calendar days following the date a press release is issued by the Company announcing the reduced warrant term, provided, no more than five business days following the Eligible Acceleration Date: (i) the press release is issued; and (ii) notices are sent to all warrant holders.

The Debentures are secured against all personal property of the Company and are subordinated in right of payment to all existing and future secured bank and/or governmental indebtedness of the Company and any existing security already registered against FLYHT's assets.

A summary of the carrying value of the debenture as at December 31, 2018 and changes during the year is presented below.

	2018 **$**
Proceeds on issue	1,950,000
Transaction costs allocated	(84,376)
Net proceeds	1,865,624
Amount classified as equity (net of transactions costs)	(257,984)
Accrued interest	120,133
Carrying amount of liability at December 31, 2018	**1,727,773**

Contract Liabilities - Customer Deposits

Customers are frequently required to pay for Hardware prior to the planned shipment date, or for Technical Services in advance of delivery. This non-refundable prepayment is recorded as a Customer Deposit liability upon receipt. When the associated items are shipped, or services provided, the deposit is applied to clear the resulting trade receivable.

The chart below outlines the movement in the Company's customer deposits throughout the periods ending December 31, 2018 and 2017. Payment was received for 8 installation kits in the fourth quarter of 2018 compared to 11 received in the fourth quarter of 2017, bringing 2018 year-to-date ("YTD") total payments for installation kits to 74, compared to a total of 64 in 2017.

	Q4 2018 **$**	**Q4 2017*** **$**	**Variance** **$**	**YTD 2018** **$**	**YTD 2017*** **$**	**Variance** **$**
Opening balance	925,225	1,106,012	(180,787)	1,687,971	317,899	1,370,072
Payments received	1,961,212	2,236,658	(275,446)	4,820,111	5,543,241	(723,130)
Recognized as revenue	(2,224,604)	(1,654,699)	(569,905)	(5,846,249)	(4,173,169)	(1,673,080)
Balance, December 31	**661,833**	**1,687,971**	**(1,026,138)**	**661,833**	**1,687,971**	**(1,026,138)**

*2017 restated for IFRS 15

Comprehensive Income

Revenue

In tandem with adopting the requirements of IFRS 15, the Company re-assessed revenue categories to isolate licensing from other parts purchases, to establish one category for all hardware sales, and to rename revenue from recurring voice and data services.

In the categories listed in the revenue sources chart, Software as a Service (**SaaS**) is the recurring revenue from the Company's product that allows customers to utilize and analyze data they receive from hardware, use of functions such as the satellite phone and the sale of weather data from TAMDAR units. These usage fees are recognized as the service is provided based on actual customer usage each month. **Hardware** includes the income from hardware sales and related parts required to install the unit, spare units, spare installation parts, and Underfloor Stowage Units. **Licensing** includes sales of modems with a related manufacturing license fee. **Technical Services** includes all services offered by the Company, including repairs and other expertise.

Revenue sources

	Q4 2018 $	Q4 2017* $	Variance $	YTD 2018 $	YTD 2017* $	Variance $
SaaS	2,261,211	1,001,551	1,259,660	5,528,822	4,312,702	1,216,120
Hardware	1,464,475	1,942,636	(478,161)	5,536,687	5,444,844	91,843
Licensing	249,833	444,931	(195,098)	2,265,262	3,752,301	(1,487,039)
Technical Services	58,307	60,889	(2,582)	259,745	185,041	74,704
Total	**4,033,826**	**3,450,007**	**583,819**	**13,590,516**	**13,694,888**	**(104,372)**

*2017 restated for IFRS 15

Overall, total revenue decreased 0.8% from $13,694,888 in 2017 to $13,590,516 in 2018. Hardware sales increased by 1.7%, while SaaS increased by 28.2%, Licensing decreased by 39.6%, and Technical Services revenue increased by 40.4%.

SaaS Recurring revenue accounted for 56.1% of revenue in Q4 2018 (Q4 2017: 29.0%), and 40.7% YTD 2018 (YTD 2017: 31.5%). The acquisition of customer contracts from PAC contributed to an increase in Q4 2018 from Q4 2017 of 125.8%. Recurring revenue from FLYHT's existing client base is expected to continue to expand throughout 2019 and future years.

Hardware sales increased in 2018 as compared to 2017 due to an increased number of installation kits being shipped. YTD, 99 AFIRS installation kits were shipped, compared to 81 in 2017.

Licensing decreased both in the quarter and YTD in 2018 from 2017 due to differences in the number of modems with related license fees shipped.

Technical Services revenue decreased in the quarter while increasing YTD in 2018 compared to 2017. 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 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017*	Q3 2017*	Q2 2017*	Q1 2017*
SaaS	2,261,211	1,145,368	1,079,214	1,043,030	1,001,551	998,337	1,158,340	1,154,473
Hardware	1,464,475	1,651,592	854,350	1,566,270	1,942,636	1,689,030	743,115	1,070,064
Licensing	249,833	265,492	1,122,974	626,962	444,931	465,422	1,318,497	1,523,451
Technical Services	58,307	29,661	89,728	82,049	60,889	68,591	22,430	33,131
Total	**4,033,826**	**3,092,113**	**3,146,266**	**3,318,311**	**3,450,007**	**3,221,380**	**3,242,382**	**3,781,119**

*2017 restated for IFRS 15

	Q4 2018 $	Q4 2017* $	YTD 2018 $	YTD 2017* $
North America	1,651,318	1,948,062	5,935,692	7,476,508
South/Central America	246,361	91,754	660,007	396,591
Africa	255,776	213,102	588,473	774,402
Middle East	197,492	452,265	1,794,439	976,490
Europe	83,418	98,570	770,574	348,037
Australasia	159,429	157,686	646,989	632,299
Asia	1,440,032	488,568	3,194,342	3,090,561
Total	**4,033,826**	**3,450,007**	**13,590,516**	**13,694,888**

*2017 restated for IFRS 15

Gross Profit and Cost of Sales

FLYHT's cost of sales includes the direct costs associated with specific revenue types, including the hardware 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 2018 was 44.5% compared to 23.7% in 2017's fourth quarter. A review of the annual results shows the cost of sales as a percentage of revenue also increased from 33.1% in 2017 to 39.6% in 2018. The decrease in gross margin was due to differences in the mix of revenue sources in 2018 versus 2017. Gross margin will fluctuate quarter over quarter depending on customer needs and revenue mix.

Gross margin for the last eight quarters was:

	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Gross Margin %	55.5	56.5	65.8	59.9	76.3	53.0	68.7	68.7
Cost of Sales	44.5	43.5	34.2	40.1	23.7	47.0	31.3	31.3

Distribution Expenses

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

Major Category	Q4 2018 $	Q4 2017 $	Variance $	YTD 2018 $	YTD 2017 $	Variance $
Salaries and benefits	1,435,259	420,315	1,014,944	3,592,664	2,361,046	1,231,618
Share based compensation	6,093	3,154	2,939	40,068	152,272	(112,204)
Contract labour	163,901	301,633	(137,732)	725,677	881,837	(156,160)
Office	134,483	100,118	34,365	402,191	429,294	(27,103)
Travel	179,903	125,839	54,064	647,515	601,172	46,343
Equipment and maintenance	17,330	18,121	(791)	190,470	53,712	136,758
Depreciation	13,685	10,378	3,307	37,641	34,438	3,203
Marketing	26,415	45,337	(18,922)	165,615	268,033	(102,418)
Other	98,148	144,174	(46,026)	191,395	169,667	21,728
Total	**2,075,217**	**1,169,069**	**906,148**	**5,993,236**	**4,951,471**	**1,041,765**

Distribution expenses increased by 21.0% from 2018 to 2017.

Salaries and benefits have increased in 2018 primarily due to the PWS acquisition of new employees and the replacement of contract labour with permanent staff, as can be noted in the offsetting decreases in **Contract labour**.

Share based compensation has increased in 2018 as a result of an increased number of options granted to employees involved in distribution activities.

Travel expense has increased in the quarter and YTD in support of integration and customer service efforts with the acquisition of PWS and increased sales efforts, particularly in China.

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

Marketing expense has decreased in 2018 due to reduced attendance at industry tradeshows.

Other expense decreases in the fourth quarter compared to an increase YTD are the result of differences in reserves for bad debts throughout 2018.

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 2018 $	Q4 2017 $	Variance $	YTD 2018 $	YTD 2017 $	Variance $
Salaries and benefits	527,278	306,721	220,557	1,457,388	1,326,548	130,840
Share based compensation	156,112	11,828	144,284	190,209	281,675	(91,466)
Contract labour	123,394	130,294	(6,900)	289,983	431,423	(141,440)
Office	119,363	81,981	37,382	376,094	306,034	70,060
Legal fees	53,029	20,015	33,014	195,143	76,446	118,697
Audit and accounting	71,627	51,022	20,605	197,852	192,452	5,400
Investor relations	34,193	37,143	(2,950)	114,866	158,931	(44,065)
Brokerage, stock exchange, and transfer agent fees	11,377	4,923	6,454	34,205	40,350	(6,145)
Travel	44,283	23,261	21,022	120,297	102,348	17,949
Equipment and maintenance	73,298	38,394	34,904	166,179	131,340	34,839
Depreciation	27,570	27,038	532	80,381	59,334	21,047
Other	16,573	13,021	3,552	29,011	52,206	(23,195)
Total	**1,258,097**	**745,641**	**512,456**	**3,251,608**	**3,159,087**	**92,521**

Administration expenses increased by 2.9% from 2017 to 2018.

Salaries and benefits have increased in 2018 primarily due to the acquisition of new employees and the replacement of contract labour with permanent staff, as can be noted in the decreases in **Contract labour.**

Legal fees and **Audit and accounting** costs have increased YTD as a result of services required for the acquisition of PWS assets.

Equipment and maintenance expenses and **Depreciation** increased YTD mainly with the acquisition of computing software from PAC.

Other expenses also decreased in 2018 from the same period in 2017 due to employee relocation costs required in 2017, while this type of expense was not required in 2018.

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 2018 $	Q4 2017 $	Variance $	YTD 2018 $	YTD 2017 $	Variance $
Salaries and benefits	715,446	699,428	16,018	2,443,060	2,093,261	349,799
Share based compensation	3,003	-	3,003	8,008	25,448	(17,440)
Contract labour	54,978	87,648	(32,670)	225,529	276,669	(51,140)
Office	30,618	48,557	(17,939)	79,263	127,221	(47,958)
Travel	21,242	19,163	2,079	75,196	90,911	(15,715)
Equipment and maintenance	10,632	32,297	(21,665)	69,733	125,357	(55,624)
Components	23,273	57,518	(34,245)	77,399	165,510	(88,111)
SR&ED credit	-	-	-	-	(116,514)	116,514
Depreciation	15,838	31,856	(16,018)	43,437	49,721	(6,284)
Government grants	(85,851)	123,402	(209,253)	(391,697)	(318,310)	(73,387)
Other	24	-	24	1,517	-	1,517
Total	**789,203**	**1,099,869**	**(310,666)**	**2,631,445**	**2,519,274**	**112,171**

Research and Development expense was 4.5% higher in 2018 compared to the prior year due to no SR&ED credits received in 2018 partially offset by additional funding received from WINN in 2018. Research and development costs vary according to specific project requirements.

Salaries and benefits have increased mainly due to replacement of contracts with staff as can be noted in the decreases in **Contract labour**.

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 lower in 2018 than in 2017 as a lower number of expensed parts were used in development and testing activities.

The decreased **SR&ED credit** in 2018 was due to a difference in eligible expenses, as expenses formerly SR&ED eligible were funded instead by the WINN program.

Net Finance Costs

Major Category	Q4 2018 $	Q4 2017 $	Variance $	YTD 2018 $	YTD 2017 $	Variance $
Interest (income)	(7,712)	(6,051)	(1,661)	(16,628)	(15,756)	(872)
Net foreign exchange loss (gain)	(139,411)	(5,034)	(134,377)	(189,971)	115,979	(305,950)
Bank service charges	6,973	6,107	866	26,849	38,807	(11,958)
Interest expense	174	64	110	2,719	681	2,038
Government loan accretion	89,731	57,323	32,408	321,875	223,795	98,080
Debenture interest and accretion	79,854	-	79,854	120,132	-	120,132
Net finance costs	**29,609**	**52,409**	**(22,800)**	**264,976**	**363,506**	**(98,530)**

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 weakening of the Canadian dollar has given rise to increased foreign exchange gains 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 is the recognition of the effective interest on the liability portion of the debenture and the amortization of the issuance cost.

Net Loss

Major Category	Q4 2018 $	Q4 2017* $	Variance $	YTD 2018 $	YTD 2017* $	Variance $
Net income (loss)	217,954	(437,318)	655,272	(1,966,748)	(1,836,735)	(130,013)

*2017 restated for IFRS 15

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 2018, 99% of the Company’s gross sales were made in U.S. dollars, compared to 99% in 2017. 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

In January 2016, the International Accounting Standards Board issued the final version of IFRS 16, Leases. IFRS 16 will replace the existing leases Standard, IAS 17 Leases, and related Interpretations. The Standard sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e., the lessee and the lessor). IFRS 16 introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Currently, operating lease expenses are charged to the statement of comprehensive income (loss). The Standard also contains enhanced disclosure requirements for lessees. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17.

The effective date for adoption of IFRS 16 is annual periods beginning on or after January 1, 2019, and the Company will adopt IFRS 16 for the annual period beginning on January 1, 2019. The transition to IFRS 16 consists of three key phases: identifying and analyzing all contracts that could contain a lease, analyzing impact of transition, and implementing any required changes to policies and internal controls. The Company has completed its identification of all outstanding leases as at December 31, 2018 and is currently in the process of completing its calculations and analysis to finalize transition results for Q1 2019.

In the context of transition to IFRS 16, as of January 1, 2019 the Company will recognize right-of-use assets and lease liabilities in the statements of financial position. The Company will transition to IFRS 16 in accordance with the modified retrospective approach. Impacts of IFRS 16 prior to January 1, 2019 are not adjusted. As part of the initial application of IFRS 16, the Company chose to apply the following transition options and exemptions:

Critical judgements and estimates will be applied in the transition to IFRS 16, such as assessing whether an arrangement contained a lease, determining the lease term, and calculating discount rates on a lease-by-lease basis. These aforementioned estimates have a significant risk of material adjustment within the next financial year.

Effective January 1, 2018 the Company adopted the amendments of IFRS 15, which implemented a single model that applies to contracts with customers with two approaches to recognizing revenue: at a point in time and over time. The model features a contract-based five step analysis of transactions to determine whether, how much and when revenue is recognized. The retrospective method was used to ensure comparability, which required quarterly restatement of comparative periods. No restatement was made for contracts completed by January 1, 2017. Opening 2017 retained earnings was adjusted for the cumulative effect prior to that date.

Effective January 1, 2018 the Company also adopted the amendments of IFRS 9 which replaced the 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. The Company evaluates impairment of receivables using an expected credit loss model, which involves assessing potential credit impairment at each reporting date. Adopting this standard has not had a material impact on the Company's 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 228, FlightLink and TAMDAR, can take approximately 150-200 person-hours to install on an aircraft, depending on the product, aircraft type and installation crew. Since the installation period is non-trivial, 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, though most aircraft are available annually. The timing of a c-check for hardware 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 hardware components are installed and running.

The Company takes steps to mitigate this uncertainty by encouraging customers to install hardware 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. The Company also offers special discounts for upfront payment for all units as another mitigation tool. 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.

Enterprise Network Risks

The Company currently operates at least three different types of networks to provide its SaaS products to our customer base. Uptime Classic services many of FLYHT's early adopters and is implemented on redundant fixed server platforms in Canada. Uptime Cloud services many of FLYHT's newer AFIRS customers and is implemented in Amazon Web Services (AWS) equipment in the United States and China. The AirMap suite is operated on fixed equipment in a hosting center in the United States. Part of FLYHT's agreement with Panasonic Avionics Corporation will result in the AirMap suit being ported to AWS at no cost to FLYHT. This is a non-trivial technology transfer and it is possible that disruption in the task could impact exiting customers and negatively impact FLYHT's relationship with these clients. It is FLYHT's longer term goal to migrate all customers and services onto a common AWS platform and reduce the number of systems, increasing efficiencies and reducing costs.

All the enterprise services exist with the possibility that their security could be compromised. FLYHT uses best practices to ensure that the services are as secure as practical and periodically test the penetrability of the systems according to best practices within the enterprise community. A security breach could expose our customer data to external, unauthorized third parties and create a breach in our contracts with our customers. To date, no such breach has knowingly occurred on any of these systems. FLYHT will continue to monitor and improve our solutions. In particular, the hosting of our solutions on AWS brings with it the benefits of taking advantage of state of the art security provisions which are introduced on that platform with great velocity

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 the Company offers.

To address this risk, the sales team has developed several 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, we may find success 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 enables the Company to complete STCs in a timely and cost-efficient manner. Similarly, the Company must interact with the FAA for its USA based STCs and PMA certifications. The Company has worked over the past few years to distribute the specified knowledge among several 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, FlightLink and TAMDAR product lines and continues to build out its 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 within the AirMap suite of applications of and UpTime Cloud. FLYHT is confident these products fill a gap in the industry, as evidenced by increasing sales of the AFIRS 228these products throughout from 2013 to 2018. The Company's success will ultimately depend on the success of its products, and future enhancements made to them.

Revenues associated with TAMDAR

TAMDAR is currently installed and collecting weather data on approximately 200 aircraft. FLYHT supplies this weather data to Synoptic Data DBC as part of their participation in the National Mesonet program. FLYHT is receiving revenues from Synoptic based upon this participation with a targeted number of observations. If these observations fall below an established number or if they are not perceived to have the original perceived value, then the existing payments for the TAMDAR data could be diminished or stop, depending upon a variety of factors including procurement changes from the United States Government. FLYHT attempts to mitigate these potential problems and potentially grow the revenues derived from TAMDAR by expanding the number of installed TAMDAR sensors and by investing in quality control programs to ensure that the sensors are properly calibrated and producing valid and valuable data.

Availability of key supplies

FLYHT services its products differently, depending on the product.

- The AFIRS 220 is no longer in production and all units are repaired in-house at FLYHT-Calgary. Certain parts can be delayed in shipping or availability, which can cause a delay in servicing the AFIRS 220. FLYHT aims to avoid the risk of not having the necessary supplies by managing inventories and storing extra key parts. Additionally, the Company maintains close communication with its partners and suppliers to ensure all key components for the AFIRS units will be available into the future.
- The 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 receiving 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. The AFIRS 228 is serviced in different ways; by the contract manufacturer, at FLYHT-Calgary or by our contract maintenance facility GAMECO in Guangzhou, China. Where a unit is repaired or serviced depends on a multitude of factors and is managed by FLYHT's customer support team.
- FlightLink and TAMDAR are assembled at FLYHT-Littleton using subassemblies that the company relies on from partners, suppliers and using special parts to complete unit builds. Certain parts can be delayed in shipping or availability, which can cause a delay in receiving assemblies for final units. FLYHT aims to avoid the risk of not having the necessary supplies by managing inventories and storing extra key parts. Additionally, the Company maintains close communication with its partners and suppliers to ensure all key components for the AFIRS units will be available into the future. FlightLink and TAMDAR are currently serviced by Panasonic owned maintenance and repair facilities in Washington State, USA and Singapore at no charge to FLYHT. This relationship can exist until March 31, 2020 at which time FLYHT may also create a Part 145 repair facility at FLYHT-Littleton. Whether FLYHT continues to use Panasonic repair facilities after March 31, 2020 is being evaluated at this time.

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. This company also provided certain financial services in Q2 2018. All transactions with the related party were at exchange amounts that approximated fair value.

	For the three months ended December 31		**For the year ended December 31**	
Amounts included in:	**2018 $**	**2017 $**	**2018 $**	**2017 $**
Contract labour	-	19,200	12,900	83,200

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.

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Independent Auditors' Report

To the Shareholders of FLYHT Aerospace Solutions Ltd.

Opinion
We have audited the consolidated financial statements of FLYHT Aerospace Solutions Ltd. (the "Company"), which comprise:

- the consolidated statements of financial position as at December 31, 2018 and December 31, 2017;
- the consolidated statements of comprehensive income (loss) for the years then ended;
- the consolidated statements of changes in equity (deficiency) for the years then ended;
- the consolidated statements of cash flows for the years then ended;
- and notes to the consolidated financial statements, including a summary of significant accounting policies.

Hereinafter referred to as the "financial statements".

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2018 and December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion
We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "*Auditors' Responsibilities for the Audit of the Financial Statements*" section of our auditors' report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Material Uncertainty Related to Going Concern
We draw attention to Note 2 in the financial statements, which indicates that the Company's operating results and cash flows from operations are negative in both 2018 and 2017.
As stated in Note 2 in the financial statements, these events or conditions, along with other matters as set forth in Note 2 in the financial statements, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

Other Information
Management is responsible for the other information. Other information comprises the information included in Management's Discussion and Analysis to be filed with the relevant Canadian Securities Commissions.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.
We obtained the information included in the Management's Discussion and Analysis to be filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represents the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this auditors' report is Reinier Deurwaarder.

"KPMG LLP"

Chartered Professional Accountants
April 10, 2019
Calgary, Canada

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	December 31, 2018	December 31, 2017
	$	$
Assets		
Current Assets		
Cash and cash equivalents (note 6)	2,406,769	2,014,135
Trade and other receivables (note 7)	3,440,767	1,650,574
Contract assets	395,695	313,634
Deposits and prepaid expenses	227,065	391,191
Inventory (note 8)	1,066,946	1,331,893
	7,537,242	5,701,427
Non-current assets		
Property and equipment (note 9)	480,270	398,272
Intangible assets (note 10)	34,992	34,992
Inventory (note 8)	1,044,766	859,448
Total non-current assets	1,560,028	1,292,712
Total assets	**9,097,270**	**6,994,139**
Liabilities		
Current liabilities		
Trade payables and accrued liabilities (note 11)	2,342,754	1,874,005
Customer deposits (note 12)	661,833	1,687,971
Contract liabilities (note 13)	1,524,894	-
Loans and borrowings (note 14)	129,465	112,578
Current tax liabilities (note 26)	272	12,211
Total current liabilities	4,659,218	3,686,765
Non-current liabilities		
Loans and borrowings (note 14)	4,420,714	1,842,439
Provisions (note 16)	43,701	91,713
Total non-current liabilities	4,464,415	1,934,152
Total liabilities	**9,123,633**	**5,620,917**
Equity (deficiency)		
Share capital (note 17)	58,430,455	58,409,225
Convertible debenture – Equity feature	207,273	-
Warrants (note 17)	50,712	911,282
Contributed surplus	10,494,208	9,349,871
Cumulative Translation Adjustment	35,638	(19,254)
Deficit	(69,244,650)	(67,277,902)
Total equity (deficiency)	(26,364)	1,373,222
Total liabilities and equity	**9,097,270**	**6,994,139**

See accompanying notes to condensed consolidated interim financial statements, including the going concern note (note 2d).
Under the transition method chosen for application of IFRS15, comparative information has been restated (note 3).

On behalf of the board

Director – Bill Tempany

Director – Paul Takalo

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

	For the year ended December 31	
	2018 $	2017 $
Revenue (note 19)	13,590,516	13,694,888
Cost of sales	5,524,696	4,529,380
Gross profit	8,065,820	9,165,508
Distribution expenses (note 22)	5,993,236	4,951,471
Administration expenses (note 23)	3,251,608	3,159,087
Research, development and certification engineering expenses (note 24)	2,631,445	2,519,274
Income (loss) from operating activities	(3,810,469)	(1,464,324)
Other Income (note 21)	1,861,050	-
Finance income (note 25)	206,599	15,756
Finance costs (note 25)	471,575	379,262
Net finance costs	264,976	363,506
Income (loss) before income tax	(2,214,395)	(1,827,830)
Income tax expense (recovery) (note 26)	(247,647)	8,905
Income (loss) for the period	(1,966,748)	(1,836,735)
Foreign currency translation adjustment	54,892	(5,102)
Comprehensive income (loss) for the period	(1,911,856)	(1,841,837)
Income (loss) per share		
Basic and diluted income (loss) per share (note 18)	(0.09)	(0.09)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (DEFICIENCY)

For the years ended December 31, 2018 and 2017

	Share Capital $	Convertible Debenture $	Warrants $	Contributed Surplus $	Cumulative Translation Adjustment	Deficit $	Total Equity (Deficit) $
Balance at December 31, 2017	58,409,225	-	911,282	9,349,871	(19,254)	(67,277,902)	1,373,222
Income for the period	-	-	-	-	54,892	(1,966,748)	(1,911,856)
Total comprehensive loss for the period	-	-	-	-	54,892	(1,966,748)	(1,911,856)
Contributions by and distributions to owners							
Share-based payment transactions	-	-	-	105,018	-	-	105,018
Warrants issued	-	-	50,712	-	-	-	50,712
Warrants re-priced	-	-	133,267	-	-	-	133,267
Warrants exercised	21,230	-	(5,230)	-	-	-	16,000
Warrants expired	-	-	(1.039,319)	1,039,319	-	-	-
Conversion feature on debenture	-	207,273	-	-	-	-	207,273
Total contributions by and distributions to owners	21,230	207,273	(860,570)	1,144,337	-	-	512,270
Balance at December 31, 2018	58,430,455	207,273	50,712	10,494,208	35,638	(69,244,650)	(26,364)
Balance at January 1, 2017	57,514,646	-	1,139,934	9,017,979	(14,152)	(65,441,167)	2,217,240
Loss for the period	-	-	-	-	(5,102)	(1,836,735)	(1,841,837)
Total comprehensive loss for the period	-	-	-	-	(5,102)	(1,836,735)	(1,841,837)
Contributions by and distributions to owners							
Issue of common shares	-	-	-	459,396		-	459,396
Share issue costs	379,396	-	-	(127,504)		-	251,892
Share-based payment transactions	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	(19,254)	(67,277,902)	1,373,222

CONSOLIDATED STATEMENT OF CASH FLOWS

	For the year ended December 31	
	2018	2017
	$	$
Cash flows from (used in) operating activities		
Income (loss) for the period	(1,966,748)	(1,836,735)
Depreciation – property and equipment	161,489	143,493
Convertible debenture accretion	120,132	-
Grant portion of contributions from WINN	(391,697)	(318,310)
Government loan accretion	321,875	223,795
Equity-settled share-based payment transactions	105,018	459,396
Warrant re-price	133,267	-
Bargain purchase	(658,920)	-
Change in inventories	835,266	204,387
Change in trade and other receivables	(1,690,798)	219,885
Change in contract assets	(82,061)	(199,909)
Change in prepayments	164,126	(174,419)
Change in trade and other payables	469,051	78,207
Change in customer deposits	(1,026,138)	1,370,072
Change in provisions	(32,205)	(436,832)
Provision realized	(15,807)	(20,790)
Unearned revenue	-	(19,866)
Unrealized foreign exchange loss	(110,142)	146,300
Other interest expense	2,719	681
Interest paid	(2,719)	(681)
Interest income	(16,628)	(15,756)
Interest received	16,628	15,756
Income tax expense (recovery)	(247,647)	8,905
Income tax paid	(8,272)	(7,470)
Net cash from (used in) operating activities	(3,920,211)	(159,891)
Cash flows used in investing activities		
Acquisitions of property and equipment (PPE)	(96,224)	(208,416)
Disposal of PPE	-	2,487
Net cash used in investing activities	(96,224)	(205,929)
Cash flows from (used in) financing activities		
Redemption of GIC	-	250,000
Subsidy payment received	2,727,024	-
Less subsidy recognized (note 13)	(1,202,130)	-
Proceeds from debenture	1,865,624	-
Proceeds from exercise of share options and warrants	16,000	538,423
Contributions from WINN	1,056,543	1,080,658
Repayment of borrowings	(119,333)	(103,767)
Payment of finance lease liabilities	-	(15,553)
Net cash from (used in) financing activities	4,343,728	1,749,761
Net increase in cash and cash equivalents	327,293	1,383,941
Cash and cash equivalents, beginning	2,014,135	709,958
Effect of exchange rate fluctuations on cash held	65,341	(79,764)
Cash and cash equivalents, ending	2,406,769	2,014,135

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. FLYHT is publicly traded as FLY in Canada on the TSX.V; and as FLYLF in the USA on the OTCQX. FLYHT is based in Calgary, Canada with an office in Littleton, Colorado and is an AS9100 Quality registered company. For more information visit www.flyht.com.

The consolidated financial statements of the Company as at and for the years ended December 31, 2018 and 2017 consist of the Company and its subsidiaries.

FLYHT's mission is to improve aviation safety, efficiency and profitability. Globally, and for more than 20 years, airlines, leasing companies, fractional owners and original equipment manufacturers have installed FLYHT's differentiated aircraft and enterprise-based solutions to deliver real-time, flight-deck, satellite connectivity for tracking, health monitoring, and streaming of operational, maintenance and weather data.

2. Basis of preparation

(a) Basis of accounting

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, 2019.

(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. At December 31, 2018, the Company had positive working capital of $2,878,024 compared to positive $2,014,662 (restated for IFRS 15) as of December 31, 2017, an increase of $863,362. The Company's operating results and cash flows from operations are negative in both 2018 and 2017.

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 hardware units and related services. Additionally, the acquisition of PWS provides the Company the opportunity to realize efficiencies of scale through increasing both service and hardware revenues.

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. The Company has an undrawn credit facility of $1.5 million, $2.97 million in contributions under WINN loans not yet received and if the need arises due to market opportunities, the Company may meet cash-flow 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) Use of judgements and estimates

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

The following are the Company's estimation uncertainties, and assumptions used in preparing our financial statements:

1. Recognition of deferred tax assets: the availability of future taxable profit against which deductible temporary differences and tax losses carried forward can be utilized.

2. Recognition and measurement of provisions and contingences: key assumptions about the likelihood and magnitude of an outflow of resources.

3. Measurement of expected credit loss allowance for trade receivables: the expected credit loss is determined by assessing potential credit impairment at each reporting date.

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

5. The fair value of WINN contributions: a discount rate is used to determine the portion of the contribution to be categorized as 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.

6. Asset acquisition for which no consideration was paid: measured at the fair value of the consideration transferred and fair value of assets acquired and liabilities assumed.

7. Valuation of convertible debt instruments: a discount rate is used to determine the fair value of the loan, and is a method of allocating the equity portion between the different equity classes.

3. Significant accounting policies

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

(a) Basis of consolidation

(i) Business combinations

The Company accounts for business combinations using the acquisition method when control is transferred. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognized in profit or loss immediately. Transactions costs are expenses as incurred, except if related to the issue of debt or equity securities.

Any contingent consideration is measured at fair value at the date of acquisition. Obligations to pay a contingent consideration are remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognized in profit or loss.

(ii) Subsidiaries

Subsidiaries are entities controlled by FLYHT. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

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

Effective January 1, 2018 the Company adopted IFRS 9 – Financial Instruments which replaced 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.

(i) Recognition and measurement

The Company initially recognizes trade receivables and trade payables, loans and borrowings and finance lease liabilities on the date they are originated. All other financial instruments are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

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.

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.

(ii) Derecognition

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.

The Company derecognizes a financial liability when its contractual obligations are discharged, canceled or expires. On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid is recognized in profit or loss.

(iii) Offsetting

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.

(iv) Share capital

Common shares are classified as equity if settlement results in the company delivering a fixed number of its own shares in exchange for a fixed number of other cash or financial assets. If settlement results in the Company delivering a fixed number of its own shares in exchange for a fixed number of other cash or financial assets. 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.

(v) 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 at maturity, 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 write-down to net realizable value is recognized as an expense. Reversals of previous write-downs are recognized in profit or loss in the period when the reversal occurs.

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 raw material inventories.

Finished goods consists of 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 units.

(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 over lease term

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 AFIRS, FlightLink and TAMDAR systems and the design and testing of all software systems and products (including AirMap, 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.

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

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.

(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 the grant 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 the 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 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 and failure rates.

(k) Impairment

(i) Non-derivative financial assets

The Company recognizes allowances for expected credit loss on financial assets measured at amortized cost. Loss allowances for trade receivables and contract assets are measured at an amount equal to lifetime expected credit loss. Lifetime expected credit losses are the losses that result from all possible default events over the expected life of a financial instrument.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating expected credit losses, the Company considers reasonable and supportable information that is relevant and available without undue cost of effort. This includes both quantitative and qualitative information and analysis based on historical experience and informed credit assessment including forward-looking information.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 90 days past due.

Expected credit losses are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls being the difference between the cash flows due to the Company in accordance with the contract and the cash flows that the Company expects to receive.

(ii) Non-financial assets

At each reporting date, the Company reviews the carrying amounts of its non-financial assets (other than inventories and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the assets recoverable amount is estimated.

For impairment testing, assets 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.

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

An impairment loss is recognized if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in profit and loss.

(l) Revenue

Effective January 1, 2018 the Company adopted IFRS 15, which implemented a single model that applies to contracts with customers with two approaches to recognizing revenue: at a point in time and over time. The model features a contract-based five step analysis of transactions to determine whether, how much and when revenue is recognized. The retrospective method was used to ensure comparability, which required restatement of comparative periods. No restatement was made for contracts completed by January 1, 2017. Opening 2017 retained earnings was adjusted for the cumulative effect of adjustments prior to that date.

The following describes the accounting policies for each revenue stream, including the timing of each performance obligation and any significant payment terms.

(i) SaaS

Revenue from sales of Software as a Service is recognized over time as these services are provided. Invoices based on usage are generated monthly and typically are payable within 30 days.

(ii) Hardware

Control of Hardware is transferred upon shipment. Invoices are generated, and revenue is recognized at that point in time. Payment terms are based on the creditworthiness of each customer, which results in either a grant of net terms or a requirement to transact on a prepayment basis only. Transaction price is determined by contract or purchase order. Under IAS 18, revenue was deferred until the risks and rewards had been transferred to the buyer. For contracts under which customer acceptance was determined based on installation of the system, revenue and associated cost of goods sold is recognized sooner under IFRS 15 than IAS 18.

(iii) Licensing

Control over modems and associated IP licenses is transferred upon shipment, at which point the revenue is recognized. Payment is typically due net 30 post shipment.

(iv) Technical Services

Revenue from Technical Services is recognized over time, as the services are provided or as the associated asset is developed. Payment terms for these services typically follow terms established for Hardware.

The effect of initially applying this standard is mainly earlier recognition of revenue from Hardware sales. IFRS 15 did not have a significant impact on revenue from SaaS, Licensing, nor Technical Services. Under IFRS 15, revenue is recognized when a customer obtains control of the goods or services. Determination of the timing of this transfer often requires judgement. Management assesses each contract for appropriate allocation of transaction price among performance obligations, including an expected margin analysis and evaluation of consistently applied pricing methods.

The following tables summarize the impact of the Company's transition to IFRS 15.
Comprehensive statement of income, affected categories:

	For the year ended December 31, 2017 $		
	Previously reported	IFRS 15 adjustments	Amounts adjusted for IFRS 15
Revenue	14,018,750	(323,862)	13,694,888
Cost of sales	4,772,680	(243,300)	4,529,380
Gross profit	**9,246,070**	**(80,562)**	**9,165,508**

Comprehensive statement of financial position, affected categories:

	December 31, 2017 $			**January 1, 2017** $		
	Previously reported	IFRS 15 adjustments	Amounts adjusted for IFRS 15	Previously reported	IFRS 15 adjustments	Amounts adjusted for IFRS 15
Trade and other receivables	1,887,251	(236,677)	1,650,574	2,105,385	(113,725)	1,991,660
Contract assets	-	313,634	313,634	-	113,725	113,725
Current inventory	1,563,558	(231,665)	1,331,893	1,556,794	(467,488)	1,089,306
Unearned revenue	(413,809)	413,809	-	(827,235)	807,369	(19,866)
Deficit	(67,550,815)	259,101	(67,291,714)	(65,795,200)	339,881	(65,455,319)

(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 equity-settled 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 and the foreign currency gain on financial assets and financial liabilities which is recognized in profit or loss as it accrues using the effective interest method.

Finance costs comprise interest expense and accretion on borrowings, unwinding of the discount on provisions, and the foreign currency loss on financial assets and financial liabilities, and are recognized in profit or loss using the effective interest method whereby the amount of the discount is amortized to interest expense over the expected life of the instrument.

(p) Foreign currency

(i) Foreign currency transactions

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

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

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

(ii) Foreign operations

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

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

(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.

(i) Current tax

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.

(i) Deferred tax

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

In January 2016, the International Accounting Standards Board issued the final version of IFRS 16, Leases. IFRS 16 will replace the existing leases Standard, IAS 17 Leases, and related Interpretations. The Standard sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e., the lessee and the lessor). IFRS 16 introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Currently, operating lease expenses are charged to the statement of comprehensive income (loss). The Standard also contains enhanced disclosure requirements for lessees. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17.

The effective date for adoption of IFRS 16 is annual periods beginning on or after January 1, 2019, and the Company will adopt IFRS 16 for the annual period beginning on January 1, 2019. The transition to IFRS 16 consists of three key phases: identifying and analyzing all contracts that could contain a lease, analyzing impact of transition, and implementing any required changes to policies and internal controls. The Company has completed its identification of all outstanding leases as at December 31, 2018 and is currently in the process of completing its calculations and analysis to finalize transition results for Q1 2019. As of January 1, 2019 the Company will recognize right-of-use assets and lease liabilities in the statements of financial position. The Company will transition to IFRS 16 in accordance with the modified retrospective approach. Impacts of IFRS 16 prior to January 1, 2019 are not adjusted. As part of the initial application of IFRS 16, the Company chose to apply the following transition options and exemptions:

Critical judgements and estimates will be applied in the transition to IFRS 16, such as assessing whether an arrangement contained a lease, determining the lease term, and calculating discount rates on a lease-by-lease basis. These aforementioned estimates have a significant risk of material adjustment within the next financial year.

5. Measurement of fair values

A number of the Company’s accounting policies and disclosures require the measurement 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, 2018	December 31, 2017
	$	$
Trade receivables	3,274,135	1,463,187
Non-trade receivables and accrued receivables	166,632	187,387
Total	**3,440,767**	**1,650,574**

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

8. Inventory

	December 31, 2018 $	December 31, 2017 $
Raw materials	1,416,670	1,336,892
Finished goods	695,042	854,449
Balance	**2,111,712**	**2,191,341**
Less current portion	(1,066,946)	(1,331,893)
Non-current portion	1,044,766	859,448

In 2018 Raw materials and Finished goods recognized as cost of sales amounted to $5,524,696 (2017: $4,529,380 restated for IFRS 15). Included in this amount was a write down of inventories amounting to $157,852 (2017: $93,498) resulting from a review of slow moving inventory parts. All inventories are pledged as security for the bank loan and the convertible debenture (note 14).

9. Property and equipment

2018	Computers and Software $	Equipment $	Leasehold Improvements $	Total $
Cost				
Balance at January 1	825,224	345,159	49,110	1,219,493
Additions	94,916	1,308	-	96,224
Acquisition through business combinations	96,770	35,569	14,924	147,263
Balance at December 31	1,016,910	382,036	64,034	1,462,980
Accumulated Depreciation				
Balance at January 1	579,613	216,633	24,975	821,221
Depreciation for the year	123,206	30,446	7,837	161,489
Balance at December 31	702,819	247,079	32,812	982,710
Carrying Amounts				
At January 1	245,611	128,526	24,135	398,272
At December 31	**314,091**	**134,957**	**31,222**	**480,270**

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**

As of December 31, 2018, all property and equipment are pledged as security for the bank loan and the convertible debenture (note 14).

10. Intangible assets

The IP Licenses are 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.

Intangible assets are pledged as security for the bank loan and the convertible debenture (note 14).

11. Trade payables and accrued liabilities

	December 31, 2018 $	December 31, 2017 $
Trade payables	1,737,710	1,345,952
Compensation and statutory deductions	346,456	348,410
Accrued liabilities	258,588	179,643
Balance, December 31	**2,342,754**	**1,874,005**

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

12. Customer deposits

	December 31, 2018 $	December 31, 2017 $
Opening balance	1,687,971	317,899
Payments received	4,820,111	5,543,241
Recognized as revenue	(5,846,249)	(4,173,169)
Balance, December 31	**661,833**	**1,687,971**

13. Contract liabilities

	December 31, 2018 $	December 31, 2017 $
Opening balance	-	-
Payments received	2,621,106	-
Recognized in Other Income	(1,202,130)	-
Less subsidy receivable	106,008	-
Balance, December 31	**1,524,984**	**-**

In October 2018 FLYHT acquired the assets of PWS. Pursuant to a transition agreement between the parties, to keep the asset acquisition cash-flow neutral to FLYHT during an 18-month transition period, FLYHT is expected to receive a subsidy of $3.3 million USD. This subsidy can be increased or reduced if FLYHT’s income relating to the acquired assets falls short or exceeds certain agreed upon thresholds. The subsidy is being paid over the term of the transition period, and the portion of the amounts received that relate to future periods are held in Contract Liabilities until they are recognized in Other Income on the Statement of Comprehensive Income.

14. Loans and borrowings

	2018 Face value $	2018 Carrying value $	2017 Face value $	2017 Carrying value $
Secured bank loan	-	-	-	-
SADI loan	1,507,481	1,252,743	1,626,814	1,162,679
WINN loan	2,137,202	1,569,663	1,080,658	792,338
Convertible debenture	2,480,000	1,727,773	-	-
Balance, December 31	**6,124,683**	**4,550,179**	**2,707,472**	**1,955,017**
Less current portion	137,233	129,465	119,333	112,578
Non-current portion	**5,987,450**	**4,420,714**	**2,588,139**	**1,842,439**

Bank loan

On July 7, 2017, the Company amended its operating demand loan with a Canadian chartered bank to increase its borrowing availability up to a maximum of CAD $1.5 million or 90% of the Company's receivable balances, from $250,000 and also resulted in the release of the GIC of $250,000 previously pledged as security. Any amount drawn on the Line of Credit bears 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.

On February 26, 2019, the Company amended its operating demand loan to allow the Company to draw funds either in CAD or USD. USD funds drawn will bear interest at Canadian chartered bank US prime plus 4.5%. The aggregate of these two facilities is not to exceed CAD $1.5 million. The other terms of the agreement remain the same.

Government loans

In November 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, 2018, the Company had received contributions totaling $2,137,202 (2017: 1,080,658).

In November 2018, the Company signed a second contribution agreement with Western Economic Diversification Canada for a Western Innovation initiative (WINN) loan, to support development of the next generation of AFIRS hardware and embedded software to address parts obsolescence issues and add new market-driven features. Under the terms of the agreement, a repayable unsecured WINN contribution to the value of the lesser of 44% of the eligible project costs to April 30, 2021 or $2,761,000 will be received. A March 31, 2019 amendment adjusted the end date for eligible project costs to September 30, 2021. The amount is repayable over five years commencing October 1, 2021. At December 31, 2018, the Company had not received contributions under this loan.

Under SADI, the Company has, at December 31, 2018, an outstanding repayable balance of $1,507,481 (2017: $1,626,814). 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, 2018 and 2017 and changes during these years is presented below.

	2018 SADI $	**2018 WINN $**	**2018 Total**	**2017 SADI $**	**2017 WINN $**	**2017 Total**
Balance January 1	1,162,679	792,338	1,955,017	1,072,641	-	1,072,641
Contributions received	-	1,056,544	1,056,544	-	1,080,658	1,080,658
Grant portion	-	(391,697)	(391,697)	-	(318,310)	(318,310)
Interest accretion	209,397	112,478	321,875	193,805	29,990	223,795
Repayment	(119,333)	-	(119,333)	(103,767)	-	(103,767)
Balance December 31	**1,252,743**	**1,569,663**	**2,822,406**	**1,162,679**	**792,338**	**1,955,017**
Less current portion	129,465	-	129,465	112,578	-	112,578
Non-current portion	1,123,278	1,569,663	2,692,941	1,050,101	792,338	1,842,439

Convertible Debenture

The Company issued the Debentures on July 24, 2018. They will mature on July 24, 2021 (if not otherwise converted) and bear interest at a rate of 8% per annum, which shall be accrued and paid annually in arrears. The Debentures shall be convertible at the option of the debenture holder into common shares of FLYHT (Common Shares) at a conversion rate of $1.30 per share at any time prior to maturity, subject to a forced conversion (at a conversion rate of $1.30 per share) into Common Shares should the closing price of the Company's Common Shares be equal to or exceed $1.80 for 20 consecutive trading days.

769,200 warrants (Warrants) were issued to the purchasers of the Debentures. Each whole Warrant is exercisable to acquire one Common Share of FLYHT for a period of two (2) years from the date of issuance at an exercise price of $1.45 per share. The Warrants are subject to an acceleration clause, whereby, if after four months and one day following the date the Warrants are issued, the closing price of the Company's Common Shares is equal to or exceeds $1.90 for 20 consecutive trading days, the Warrant expiry date shall accelerate to the date which is 30 calendar days following the date a press release is issued by the Company announcing the reduced warrant term.

The Debentures are secured against all personal property of the Company and are subordinated in right of payment to all existing and future secured bank and/or governmental indebtedness of the Company and any existing security already registered against FLYHT's assets.

	2018 **$**
Proceeds on issue	1,950,000
Transaction costs allocated	(84,376)
Net Proceeds	1,865,624
Amount classified as equity (net of transactions costs)	(257,984)
Accrued interest	120,133
Carrying amount of liability at December 31, 2018	**1,727,773**

15. Operating leases

Operating lease rentals are payable as follows:

	Premises **$**
2019	738,749
2020	836,908
2021	459,523
2022	96,114
Total	**2,131,294**

Operating lease payments made in 2018 totaled $529,245 (2017: $458,145).

16. Provisions

Product warranty	**2018** **$**	**2017** **$**
Balance January 1	91,713	549,335
Provision made during the period	12,050	15,496
Provision extinguished	(39,736)	-
Provision re-evaluation	2,314	(452,328)
Provision used during the period	(22,640)	(20,790)
Balance December 31	**43,701**	**91,713**

A provision for warranties is recognized when the underlying products or services are sold. The provision is based on historical warranty data. The provision extinguished was for a warranty claim from a partner that was withdrawn in 2018.

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, 2017	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
Exercise of warrants	10,000	21,230
Balance December 31, 2018	**21,068,617**	**58,430,455**

In 2018 warrant exercises resulted in the Company issuing a total of 10,000 shares for total proceeds of $16,000. No options were exercised in the year.

Stock option plan

The Company grants stock options to its directors, officers, employees and consultants. The following stock options were granted in 2018:

- 7,500 stock options with an exercise price of $1.17 to an employee. The options will vest in equal tranches on August 8, 2019, 2020 and 2021 and will expire on August 8, 2022.
- 421,015 stock options to employees, officers and directors under the stock option plan with an exercise price of $1.55. The options will vest in equal tranches on May 4, 2019, 2020 and 2021 and will expire on May 4, 2022.
- 30,000 stock options to a consultant with an exercise price of $1.33. The options will vest in equal tranches on September 30, 2018, December 31, 2018, March 31, 2019 and June 30, 2019. These options are set to expire on May 15, 2021.
- 10,000 stock options with an exercise price of $1.33 to an employee. The options will vest 1/3 each on November 7, 2019, 2020 and 2021 and will expire on December 31, 2022.

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, 2018, there were 2,106,862 (2017: 2,105,862) common shares reserved for this purpose.

A summary of the Company's outstanding stock options as at December 31, 2018 and 2017 and changes during these years is presented below.

	2018		2017	
	Number of options	Weighted average exercise price $	Number of options	Weighted average exercise price $
Outstanding, January 1	983,498	2.16	863,337	2.60
Options granted	468,515	1.39	486,021	2.21
Options exercised	-	-	(123,430)	2.04
Options expired	(386,168)	2.01	(242,430)	3.90
Outstanding December 31	**1,065,845**	**1.86**	**983,498**	**2.17**
Unvested options	404,435	1.53	95,000	2.10
Outstanding and exercisable, December 31	**661,410**	**2.07**	**888,498**	**2.16**

The exercise prices for options outstanding at December 31, 2018 were as follows:

	All options		Exercisable options	
Exercise price:	**Number**	**Weighted average remaining contractual life (years)**	**Number**	**Weighted average remaining contractual life (years)**
$1.17	7,500	3.6	-	-
$1.33	30,000	2.4	15,000	2.4
$1.33	10,000	4.0	-	-
$1.55	371,935	3.3	-	-
$1.90	285,365	1.0	285,365	1.0
$2.10	20,000	3.0	20,000	3.0
$2.20	316,045	2.0	316,045	2.0
$2.55	5,000	2.0	5,000	2.0
$2.75	20,000	1.0	20,000	1.0
Total	**1,065,845**	**2.2**	**661,410**	**1.6**

The weighted average fair value of the options granted during the year that were valued using the Black-Scholes option pricing model was $0.45 (2017: $1.10). The fair value of the options granted and valued using the Black-Scholes option pricing model were valued with the following weighted average assumptions:

	2018	**2017**
Risk-free interest rate	1.91%	1.05%
Expected life (years)	2.02	3.52
Volatility in the price of the Company's common shares	52%	70%
Dividend yield rate	0.00%	0.00%

Warrants

	Number of warrants	**Weighted average exercise price $**	**Value $**
Outstanding January 1, 2017	1,907,021	2.39	1,139,934
Warrants exercised	(191,021)	1.50	(228,652)
Outstanding December 31, 2017	**1,716,000**	**2.30**	**911,282**
Warrants issued (note 14)	769,200	1.45	50,712
Warrants exercised	(10,000)	1.60	(5,230)
Warrants expired	(1,706,000)	1.60	(906,052)
Outstanding December 31, 2018	**769,200**	**1.45**	**50,712**

18. Earnings per share

Basic earnings per share

The calculation of basic and diluted earnings per share for the year ended December 31, 2018 was based on a weighted average number of common shares outstanding of 21,058,736 (basic and diluted) (2017: 20,926,589 basic and diluted).

19. Disaggregation of revenue

The Company has one operating segment. The following revenue is based on the geographical location of customers. All non-current assets (property and equipment and intangible assets) reside in Canada, with the exception of property and equipment valued at $145,725, located at FLYHT's offices in Littleton, CO.

	For the year ended December 31	
	2018 $	2017* $
North America	5,935,692	7,476,508
South/Central America	660,007	396,591
Africa	588,473	774,402
Middle East	1,794,439	976,490
Europe	770,574	348,037
Australasia	646,989	632,299
Asia	3,194,342	3,090,561
Total	**13,590,516**	**13,694,888**

* Under the transition method chosen for application of IFRS15, comparative information has been restated (note 3).

The following shows revenue per major product and service categories.

	For the year ended December 31	
	2018 $	2017* $
SaaS	5,528,822	4,312,702
Hardware	5,536,687	5,444,844
Licensing	2,265,262	3,752,301
Technical Services	259,745	185,041
Total	**13,590,516**	**13,694,888**

* Under the transition method chosen for application of IFRS15, comparative information has been restated (note 3).

In the categories listed in the revenue sources chart, Software as a Service (**SaaS)** is the recurring revenue from the Company's product that allows customers to utilize and analyze data they receive from units, use of functions such as the satellite phone and the sale of weather data collected by units. These usage fees are recognized as the service is provided based on actual customer usage each month. **Hardware** includes the income from hardware sales and related parts required to install the unit, spare units, spare installation parts, and Underfloor Stowage Units. **Licensing** includes sales of modems with a related manufacturing license fee. **Technical Services** includes all services offered by the Company, including repairs and other expertise.

Major customers

Revenues from the three largest customers represent approximately 32% of the Company's total revenues for the year ended December 31, 2018 (2017: 38%).

21. Other Income

	For the year ended December 31 2018 $
Bargain Purchase (note 30)	658,920
Subsidy recovery (note 13)	1,202,130
Total	**$1,861,050**

22. Distribution expenses

	For the year ended December 31 2018 $	2017 $
Salaries and benefits	3,592,664	2,361,046
Stock based compensation	40,068	152,272
Contract labour	725,677	881,837
Office	402,191	429,294
Travel	647,515	601,172
Equipment & maintenance	190,470	53,712
Depreciation	37,641	34,438
Marketing	165,615	268,033
Other	191,395	169,667
Total	**5,993,236**	**4,951,471**

23. Administration expenses

	For the year ended December 31 2018 $	2017 $
Salaries and benefits	1,457,388	1,326,548
Stock based compensation	190,209	281,675
Contract labour	289,983	431,423
Office	376,094	306,034
Legal fees	195,143	76,446
Audit and accounting	197,852	192,452
Investor relations	114,866	158,931
Brokerage, stock exchange, transfer agent fees	34,205	40,350
Travel	120,297	102,348
Equipment and maintenance	166,179	131,340
Depreciation	80,381	59,334
Other	29,011	52,206
Total	**3,251,608**	**3,159,087**

24. Research, development and certification engineering expenses

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

	For the year ended December 31 2018 $	2017 $
Salaries and benefits	2,443,060	2,093,261
Stock based compensation	8,008	25,448
Contract labour	225,529	276,669
Office	79,263	127,221
Travel	75,196	90,911
Equipment and maintenance	69,733	125,357
Components	77,399	165,510
SRED tax credit	-	(116,514)
Depreciation	43,437	49,721
Government grants	(391,697)	(318,310)
Other	1,517	-
Total	**2,631,445**	**2,519,274**

25. Finance income and finance costs

	For the year ended December 31 2018 $	2017 $
Interest income on bank deposits	16,628	15,756
Net foreign exchange gain	189,971	-
Finance income	**206,599**	**15,756**
Bank service charges	26,849	38,807
Net foreign exchange loss	-	115,979
Other interest expense	2,719	681
Government grant interest accretion	321,875	223,795
Debenture interest expense and accretion	120,132	-
Finance costs	**471,575**	**379,262**

26. Income tax expense

Current Tax Expense

	2018 $	2017 $
Current income tax (recovery) expense	(3,667)	8,905
Deferred income tax (recovery) expense	(243,980)	-
	(247,647)	**8,905**

Deferred Tax Expense

Unrecognized deferred tax assets

Deferred tax assets have not been recognized in respect to the following items:	2018 $	2017 $
Capital assets	244,717	202,845
Intangibles	71,257	71,257
Inventory	-	2,157
Non-capital loss carry-forwards	9,948,952	9,609,044
Share issue costs	37,269	55,903
Scientific research and experimental development expenditures	8,464,230	8,345,900
	18,766,425	**18,287,106**

The Company has non-capital losses for income tax purposes of approximately $37,239,348 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	1,725,517
2038	1,617,573
Total	**37,239,348**

Reconciliation of effective tax rate

	2018 $	2017* $
Income (loss) before tax	(2,214,395)	(1,746,710)
Tax Rate	27%	27%
Expected income tax recovery	(597,887)	(471,612)
Bargain purchase tax impact	(177,908)	-
True up from prior year	(145,669)	(42,456)
Non-deductible expenses	16,077	13,361
Stock based compensation	64,337	124,036
Change in unrecognized temporary differences	593,403	385,582
	(247,647)	**8,905**

* Comparative tax information has not been restated under IFRS 15 (note 3).

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 16% (2017: 27%) of the Company's 2018 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 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, 2018	**0-30 days** **$**	**31-60 days** **$**	**61-90 days** **$**	**91+ days** **$**	**Total** **$**
Accounts receivable	2,776,145	565,523	103,264	291,978	3,736,910
Impairment	(4,802)	(5,799)	(2,199)	(283,343)	(296,143)
Net receivable	**2,771,343**	**559,724**	**101,065**	**8,635**	**3,440,767**

December 31, 2017	**0-30 days** **$**	**31-60 days** **$**	**61-90 days** **$**	**91+ days** **$**	**Total** **$**
Accounts receivable	1,060,527	195,228	40,177	510,891	1,806,823
Impairment	(2,012)	-	(3,522)	(150,715)	(156,249)
Net receivable	**1,058,515**	**195,228**	**36,655**	**360,176**	**1,650,574**

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, 2018 and 2017 was:

	2018 $	2017 $
Balance, January 1	156,249	582,712
Provision	139,894	160,484
Amounts written off	-	(586,947)
Balance, December 31	**296,143**	**156,249**

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, 2018	**< 2 months** **$**	**2-12 months** **$**	**1-2 years** **$**	**2-5 years** **$**	**> 5 years** **$**	**Total** **$**
Accounts payable	1,737,710	-	-	-	-	1,737,710
Compensation and statutory deductions	3,112	343,343	-	-	-	346,455
Accrued liabilities	1,942	240,130	11,658	4,858	-	258,588
Loans and borrowings	-	297,234	629,820	4,194,230	1,003,399	6,124,683
Total	**1,742,764**	**880,707**	**641,478**	**4,199,088**	**1,003,399**	**8,467,436**

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**

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 $147,252 (2017: $138,744) and a strengthening of the Canadian dollar would decrease net earnings by approximately $147,252 (2017: $138,744).

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, 2018, working capital denominated in U.S. dollars was approximately positive $2,474,528 (2017: positive $878,991). As a result, a 1% weakening of the Canadian dollar would increase net earnings by approximately $24,745 (2017: $8,790) and a strengthening of the Canadian dollar would decrease net earnings by approximately $24,745 (2017: $8,790).

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, 2018 and 2017 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 (note 14). 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. This company also provided certain financial services in Q2 2018. 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 year ended December 31	
	2018	**2017**
Amounts included in:	**$**	**$**
Contract labour	12,900	83,200

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:

	2018	**2017**
	$	**$**
Salary	1,158,088	1,018,521
Director fees	207,505	203,551
Variable compensation	295,000	132,500
Retiring allowance	-	112,500
Share-based payments	54,385	350,095
Short-term employee benefits	58,866	59,956
Total	**1,773,844**	**1,877,123**

Directors of the Company control 3.9% (2017: 3.9%) 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. Business combination – asset acquisition

On October 9, 2018, the Company acquired the assets of Panasonic Weather Solutions, a division of Panasonic Avionics Corporation. The assets acquired included 10 airline service contracts, a weather observation contract; the technology and intellectual property for the FlightLink Iridium Satellite Data Unit and TAMDAR sensor; AirMap operating software, and several STC's for these technologies. There were no liabilities assumed.

Pursuant to a transition agreement between the parties which ends March 31, 2020, the Company and PAC will work closely together to complete several ongoing deployment programs, while PAC will also provide warranty services and a level of customer support. This transition period will give FLYHT time to integrate business and operational functions. In addition, to keep the asset acquisition cash-flow neutral to FLYHT during this period, the Company will receive a subsidy of US$3.3 million. The total subsidy can be increased or reduced if the income relating to the acquired contracts falls short of or exceeds certain agreed upon thresholds. Pursuant to the terms of the acquisition of PWS assets and the transition agreement, FLYHT payed no monetary consideration to PAC for the PWS assets, accordingly no fair value was assessed for the intangible assets, per IFRS 3 (Business Combinations). The Company incurred acquisition-related costs of $170,403 in due diligence and legal fees. These costs have been included in Administrative Expenses (note 23).

The fair values of the identifiable assets as at the date of acquisition were:

	Fair value recognized on acquisition
Property and equipment	147,263
Inventory	755,637
Deferred tax liability	(243,980)
Bargain purchase arising on acquisition	(658,920)
Purchase consideration	-

The valuation techniques used for measuring the fair value of assets acquired were as follows:

Assets acquired	Valuation technique
Property and equipment	Fair value assessment considered market prices for similar items when they were available, and depreciated replacement cost when appropriate.
Inventory	Inventory acquired was assessed for impairment, and valued at cost or at a reduced value when appropriate.

It is impracticable to report net income on a segregated basis. Integration of the assets started immediately after acquisition, and as a result costs can no longer be separated.

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Barry Eccleston	President, Airbus Americas, Inc. (retired)
Jacques Kavafian	Director
Doug Marlin	President, Marlin Ventures Ltd.
Jack Olcott	President, General Aero Company
Mark Rosenker	United States Air Force (retired)
Paul Takalo	Director
Nina Jonsson	Director

Officers

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Alana Forbes	Chief Financial Officer
Matieu Plamondon	Chief Operating Officer
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