2019
ANNUAL REPORT
FLYHT AEROSPACE SOLUTIONS LTD.

FLYHT™

INSIGHT • ACTION • CONTROL

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Commonly used Financial Terms and Aviation Acronyms

ACARS: Aircraft Communications Addressing and Reporting System
ADS-C Automatic Dependent Surveillance - Contract
AFIRS™: Automated Flight Information Reporting System
ANAC: National Civil Aviation Agency of Brazil
CAAC: Civil Aviation Administration of China
CPDLC Controller Pilot Data Link Communications
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
FANS Future Air Navigation System
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
STC: Supplemental Type Certificate
TAMDAR™: Tropospheric Airborne Meteorological Data Reporting
TCCA: Transport Canada Civil Aviation
WINN: Western Innovation Initiative
YTD: Year-to-date

LETTER TO SHAREHOLDERS

FLYHT's highlights for 2019 included finishing the year with positive $1.0 million in EBITDA, expanding a contract with an OEM partner and securing a new contract with a major airline, completing the integration of assets we acquired in 2018 and completing a successful equity raise late in the year. Financially, Software as a Service (SaaS) products grew to become the dominant component of revenue, representing nearly 50% of 2019 overall revenues. FLYHT also finished the year with a sales order backlog of nearly $50 million. In 2020, we will continue developing new product offerings and cross selling customers to both enhance our competitive position and strengthen current relationships. Meanwhile, we are mindful of the impact the COVID-19 virus is having on the aviation and world transportation industries. We are taking the necessary precautions internally and exercising caution as we assess the overall business environment. Despite the current macro environment, we are excited about several bids in the sales pipeline and are looking to improve 2020 sales orders over those orders received in 2019.

In 2019, FLYHT grew revenues 56% over 2018 and finished the year with a positive $1.0 million in EBITDA. Perhaps most pertinent to our current strategic priorities, SaaS, improved by 85% over 2018. Total SaaS revenues were over $10.2 million and represented 48% of the company's total revenues for the year 2019. The increases in both total revenue and the SaaS revenues were dramatically aided by the Panasonic Weather Solutions Assets we acquired in October of 2018; but there was material organic growth as well. Importantly, Licensing revenue, which increased by 43% over 2018, grew for the first-time year over year since 2016. In 2017 and 2018, diminishing Licensing revenue obscured the growth we were experiencing in the core revenue areas of SaaS and the enabling Hardware.

Additional 2019 highlights include a successful $6.7 million equity raise during a challenging micro-cap financial environment and the expansion of our agreement with L3Harris Technologies to install the AFIRS 228S on the Airbus A220 as a Future Air Navigation System (FANS) and ATC Safety Services Voice (SATVOICE) option. We also successfully integrated the assets we acquired Panasonic Weather Solutions (PWS) in Littleton Colorado, and finished the year securing a FANS and SATVOICE contract with WestJet for their Boeing 737 fleet. Organizationally, we welcomed two new members to our Board of Directors, Nina Jonsson and Captain Mary MacMillan. Given the operational and financial progress we made during the year, 2019 was undoubtedly a transformative year for FLYHT.

As we turn our attention to 2020, we're acutely monitoring all developments related to the COVID-19 virus, which has particularly impacted the commercial aviation industry at the time of this writing. Flights and overall flight hours are down significantly worldwide, including those of our customers. Currently, we expect to see a significant impact on our recurring revenues in the second quarter because many of our customers have had to park their aircraft. We recognize that our customer base is stressed, especially in China, and it is likely we will see delays in payments and hardware orders. We are keeping a close eye on the situation, helping where we can and exercising caution with the daily execution of the business. We hope for a quick diminishment of the virus and a return to robust operations for our customers.

Despite the current macro environment, there are several reasons we remain optimistic about 2020. In May, FLYHT will be moving into a new leased space in Calgary which will accommodate the continued growth of our company. We are also making progress developing new and enhancing current hardware platforms as well as improving our SaaS products. We expect to make progress cross selling to our legacy and acquired customer bases with the complete FLYHT product offerings. Additionally, we have submitted several proposals, which we believe may fuel additional growth for FLYHT in 2020 should those contracts come to fruition. Finally, we are rebranding the company, rolling out an improved website, and developing new advertising materials to highlight the significant changes which have occurred at FLYHT. I hope you find these changes as pleasing as we do.

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 8, 2020 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, 2019 and 2018 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, 2019 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, and earnings before interest, income tax, depreciation and amortization (EBITDA). FLYHT defines working capital as current assets less current liabilities. 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, litigation matters, and sales order backlog 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, including, but not limited to, the effects of the COVID-19 virus being experienced worldwide, 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, including, but not limited to, the effects of the COVID-19 virus being experienced worldwide, 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 improves aviation safety, efficiency and profitability by providing airlines, leasing companies, owners, operators and original equipment manufacturers with real-time insights into how their aircraft are performing. The Company's products include AFIRS™ (Automated Flight Information Reporting System), a satellite communications (Satcom) aircraft interface device (AID) which enables real-time streaming of flight information, aircraft tracking and health monitoring, fuel management, and black box data streaming, as well as TAMDAR™ (Tropospheric Airborne Meteorological Data Reporting), which aggregates and streams airborne weather data in real-time. FLYHT is headquartered in Calgary, Canada with an office in Littleton, Colorado and is an AS9100 Quality registered company. For more information, visit www.flyht.com.

FLYHT Systems
FLYHT offers a number of hardware systems and business solutions which support satellite connectivity, real-time communication, flight tracking, and data collection and transmission to support operational, maintenance, and weather data analysis and communications for airline and fleet operators.

AFIRS™ System
The Automated Flight Information Reporting System (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 (the "black box"). AFIRS sends this information through satellite networks to FLYHT's servers, which route the data to customer-specified end points and supply data to our solutions which display real-time fleet visualizations and actionable fleet intelligence.

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. The system supports a number of value-added solutions including tracking aircraft and monitoring aircraft health to weather observations. FLYHT's global satellite coverage is enabled by the Iridium satellite network, providing service to our customers anywhere on the planet.

Additionally, AFIRS is unsurpassed when it comes to automating the collection and dissemination of block and flight times. Accurate Out-Off-On-In (OOOI) times translate directly into optimal crew utilization ensuring flight crews don't time-out ahead of schedule. Accurate hour and cycle information also extends the time between maintenance intervals maximizing utilization of life-limited parts. Precise OOOI times lead to financial savings for operators on a power-by-the-hour or lease contracts with a utilization component.

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 228S features cater to the evolving needs of airlines by providing a customizable 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.

Our systems and solutions can provide enhanced global flight tracking capabilities that meet and exceed ICAO's Global Aeronautical Distress and Safety System (GADSS) definitions for both normal and abnormal tracking.

Our CAN-TSO-C159b Iridium SATCOM solution provides the aircraft with reliable FANS 1/A, ADS-C, CPDLC and ACARS over Iridium messaging capabilities. Benefits offered by FANS include: more efficient route structure, reduced flight times, reduced fuel burns, and enhanced communications between Air Traffic Control (ATC) and the aircraft.

UpTime™
UpTime is a ground-based, 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 re-hosting 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. Customers access their UpTime accounts and data through a secure internet login. From their account, customers can enable, configure, and manage deployed AFIRS units around the globe as well as upgrade unit software.

TAMDAR™
FLYHT's Tropospheric Airborne Meteorological Data Reporting (TAMDAR™) system is a unique sensor device installed on aircraft that captures temperature, pressure, winds aloft, icing, turbulence and relative humidity. It bundles the data with Global Positioning System (GPS) data and transmits the information in real-time over satellite networks. TAMDAR data provides real-time, high-quality atmospheric data collected from 200+ aircraft in North America, Asia, and Europe through frequent soundings (thousands per day) and continuous observations including all the metrics of Radiosonde observations plus icing and turbulence.

Like the data traditionally gathered by weather balloons worldwide, this information collected by TAMDAR is used to update weather models. Unlike weather balloons, TAMDAR collects the data continuously and in real-time by transmitting "soundings" or batches of data to airline ground operations or weather offices.

TAMDAR technology is protected by several U.S. and worldwide patents. The relative humidity data, gathered throughout an aircraft's flight, makes these weather soundings particularly valuable to meteorologists.

FLYHT Solutions
FLYHT sells innovative technology solutions which use the data collected our avionics systems to provide valuable business intelligence which aircraft operators can use to streamline and optimize operations and proactively enhance safety.

AirMap™
FLYHT's AirMap application provides real-time monitoring and insight of fleets through the application's Aircraft Situational Display (ASD) and an Aircraft Messaging Center (AMC). AirMap offers a new way to run Aircraft Operations Centers by maximizing automation through intelligent data, alerts, and real-time status updates through an easy-to-use interface which visualizes situational data. AirMap is also scalable and flexible as it supports integration with external feeds for position and weather information.

AirMap enhances FLYHTLog™ and FLYHTASD™ products with flight tracking, and Out-Off-On-In (OOOI) messaging so customers can "visualize" and seamlessly communicate with their fleets of aircraft through AirMap's Aircraft Situational Display (ASD). Additional capabilities include an ACARS communications function for pilots and the ability to ingest flight plans as baselines so that flight deviations or indications of "low fuel relative to plan" trigger operational alerts.

AirMap ASD is the primary interface for monitoring the overall fleet status. It is a powerful tool that aggregates a wide array of aircraft and fleet data into an optimized display of visualized fleet intelligence.

FLYHTFuel™
FLYHTFuel is a powerful solution that focuses attention on areas of greatest savings potential to provide information necessary in making operational decisions. Some airlines currently rely on a time-consuming process of manually generating and analyzing reports to make fuel savings decisions.

FLYHTFuel is both a report generation tool and a dynamic, interactive solution that generates alerts and provides operators 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 and intuitive application highlights exceptions to best practices, provides quick drill downs to spot the root cause of issues, identifies trends, and displays associated costs. The solution can be tailored to meet pilot union requirements by removing pilot identification or it can be configured to display pilot performance if no such restrictions apply.

FLYHTFuel also uses real-time flight data acquired from the aircraft's onboard systems to present the data through intuitive dashboard visualizations. The dashboard compares how the aircraft was flown to how it could be flown in order to maximize efficiency and fuel savings. The data that is collected is based on eight industry recognized fuel savings initiatives including: single engine taxi out, reduced flap takeoffs, reduced acceleration altitude, low drag approaches, reduced flap landings, idle reverse, single engine taxi in, and APU monitoring.

FLYHTHealth™
Our FLYHT Health™ solution 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. The airline can then use FLYHT's real-time diagnostics capabilities to interrogate aircraft systems and identify the source of problems in-flight to preemptively initiate repair protocols and logistics planning—long before the aircraft lands at its destination.

By automating and enhancing the real-time and long-term monitoring of airplane data, FLYHTHealth also enables proactive management of maintenance and reduces aircraft "turn-times" and downtimes, and subsequently also the operational and financial impact of unscheduled maintenance.

FLYHTLog

FLYHTLog is a solution that enables operators to monitor the status and phase of flight of their aircraft and collect detailed Out, Off, On and In (OOOI) time information. Airlines can also automatically route the collected aircraft system and operational data to various partner systems. With increased situational awareness and more accurate flight times, airlines can save money on flight crew pay, operating costs, and maintenance operations.

Specific features include built-in visual and audible alerts along with email and text notifications, access to historical data, as well as fully configurable distress tracking capabilities.

Operators can configure automated, manual, and autonomous distress tracking capabilities down to a minimum resolution of 20 seconds. As well, using FLYHT's technology, our customers are able to remotely configure their software directly from their custom-configured, ground user interface.

FLYHTMail™

Our FLYHTMail solution provides two-way text messaging to the flight deck 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 in real-time. Real-time text messaging helps manage diversions due to weather, mechanical issues, or other unforeseen situations making it easy for the flight crew and dispatch personnel to keep each other updated on the progress of their flight or any required deviations from plan.

FLYHTVoice™

Our FLYHTVoice solution uses the Iridium satellite constellation with global coverage and an onboard satellite phone to provide a rapid and reliable private communication channel to the flight deck. When operating remote or oceanic flights, FLYHTVoice allows dispatch to supply updated information to the crew with no delay. The voice capability is particularly valuable during emergency situations or for managing irregular operations or changes to flight plans. It also operates in remote regions with little to no VHF/HF coverage.

FLYHTStream™

FLYHTStream is a revolutionary, industry-leading solution 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 the AFIRS onboard logic and processing capabilities in combination with ground-based servers to interpret and route alerts and messages to key groups on the ground, such as the airlines, operation centers, and regulators. Animation software converts the raw FDR data into visualizations that can be viewed from any computer to provide ground personnel a view of the controls to get exact insight into 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).

FLYHT Weather Observations

FLYHT Weather Observations is a solution that leverages our patented TAMDAR sensor system which collects real-time weather. This application will provide customers with weather observations as well as icing and turbulence.

Provided as an integrated solution to AirMap, our Weather Observations product will provide a visualization of flight information along with weather data and overlays. As well, the interface will provide access to the collected "soundings" page which shows Skew-T diagrams (one of four thermodynamic diagrams commonly used in weather analysis and forecasting) from equipped aircraft.

In warm regions Weather Observation data can help determine if thunderstorms may develop or if there is potential for a storm to produce hail, downbursts, or tornadoes. In cold regions the Weather Observation data can help evaluate the temperature profile which is crucial for identifying the precipitation type such as rain, freezing rain, or snow. This kind of predictive weather intelligence can help flights avert weather systems that may impact fuel consumption and flight comfort as well as help re-route for airport closures or plan for ground-support and gate shutdowns due to severe weather.

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's quality system is AS9100 certified with the registrar SAI Global as a multiple site structure covering the Calgary and Littleton facilities. 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 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. These trends and economic factors summarized the industry in the fourth quarter of 2019; however, there has been substantial change in the industry since the worldwide impact of the COVID-19 pandemic. Many commercial airlines and aircraft leasing organizations are facing extreme stress at the time of this writing and several may enter bankruptcy as a result. As airlines enter into financial stress, so do suppliers to that industry, such as FLYHT. For virtually all airlines, cash flow is drastically reduced, and this will impact the airline industry's ability to pay for services and capital expansion, which will cause a decrease in spending in these areas. We expect the economic trends outlined by leading aviation associations to highlight the challenging aspects of the pandemic on commercial aviation in the first quarter update to these measurements.

The Aviation Industry in 2019

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 (RPKs) rose by 4.2% compared to the full year of 2018[1]. Global freight traffic (measured in FTK) fell by 3.3% compared to 2018 while capacity (AFTK) rose by 2.1%. This was the first year of declining freight volumes since 2012, and the weakest performance since the global financial crisis in 2009 (when air freight markets contracted by 9.7%)[2].

Results from large commercial aircraft manufactures were mixed for 2019. Airbus delivered 863 commercial aircraft in 2019, compared to 800 in the same period of 2018[3]. Boeing delivered 380 airplanes in 2019, compared with 806 a year earlier[4]. Embraer delivered a total of 198 jets in 2019, of which 89 were commercial aircraft and 109 were executive jets which represents an increase of 9% compared to 2018[5]. Bombardier delivered 142 business jets and 33 commercial aircraft in 2019 in comparison to 137 business aircraft and 35 commercial aircraft in 2018[6].

FLYHT's Market

FLYHT's core technology, which uses satellite networks to provide real-time communication with aircraft, is marketed to a number of sectors within the global aerospace industry. The Company's AFIRS, FlightLink and TAMDAR systems can be installed on commercial, business or military aircraft, although the latter category represents a smaller portion of current business. In addition, FLYHT's UpTime Cloud and AirMap and other solutions are sold to the same market segments.

FLYHT remains an industry leader in real-time data streaming technology that enhances the efficiency and safety of aircraft. Over the last year, the Company focused on the development and launch of a cloud-based, UpTime solution. UpTime Cloud is an enhanced version of our previous platform. It is scalable enabling us to easily ramp-up and increase customers. As well it is customer-configurable—offering our customers greater flexibility and control to tailor the solution to meet their specific needs.

FLYHT will continue to add functions and features to enhance and improve UpTime Cloud capabilities to include additional tracking, data collection, transmission, and analysis to optimize airline operational and maintenance activities. Aircraft health monitoring functions will be able to detect and notify airlines of problems in real-time—while the aircraft is in flight—enabling operators to trigger preparations for repairs, parts sourcing, crew changes, or re-routing before the aircraft lands. By providing operators with real-time business intelligence, airlines will be able to optimize their fleet operations thereby reducing operational costs and increasing profit margins.

FLYHT also engaged in a strategic partnership with ATP CaseBank to produce an enhanced aircraft health and monitoring SaaS application for the MRO (commercial aircraft maintenance, repair and overhaul) market. This partnership supports FLYHT's efforts in both Hardware and SaaS product development and growth. This effort is still in early stages.

FLYHT continues progress in the weather business after the acquisition of the assets of Panasonic Weather Solutions (PWS) in 2018. The PWS product set includes FlightLink (an Iridium Satellite Data Unit) and the Tropospheric Airborne Meteorological Data Reporting system (TAMDAR™). TAMDAR is a unique sensor device installed on aircraft that captures temperature, pressure, winds aloft, icing, turbulence and relative humidity. TAMDAR bundles the data it collects with Global Positioning System (GPS) data and transmits the information in real-time over satellite networks. TAMDAR technology is protected by several U.S. and worldwide patents.

Like the data traditionally gathered by weather balloons worldwide, this information collected by TAMDAR is used to update weather models. Unlike weather balloons, TAMDAR collects the real-time data continuously and in real-time by transmitting "soundings" or batches of data to airline ground operations or weather offices.

The relative humidity data, gathered throughout an aircraft's flight, makes these weather soundings particularly valuable to meteorologists. This kind of predictive weather intelligence can also help airlines change flight plans to avert weather systems that may impact fuel consumption and flight comfort as well as help re-route for airport closures or plan for ground support and gate shutdowns due to severe weather.

FLYHT also acquired the AirMap solution from PWS which is a situational tracking solution that provides real-time visualizations of fleet status. AirMap was purpose built for AirAsia to serve as their primary flight display at their aircraft operations center in Kuala Lumpur.

FLYHT has participated in industry events and working groups to demonstrate our AFIRS solution's 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 our 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 aircraft during production so that UpTime Cloud services can be turned on immediately after delivery to the customer.

The Canadian dollar weakened relative to the U.S. dollar throughout Q4 2019[1] and the Company experienced a resulting positive impact revenue and income compared to Q4 2018. 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.

2019 Contracts, Achievements and Activities

Contracts

FLYHT announced US$12.97 million in new sales contracts and contract renewals during 2019. 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 are reproduced here as they were at the time of the disclosure. FLYHT has not attempted to identify any impediments to the fulfillment of these contracts as a result of any subsequent events after these disclosures.

Fourth Quarter

New sales contracts and purchase orders of US$6.5 million were secured in Q4 2019, including:

- A US$6.2 million contract with WestJet to install AFIRS on the airline's fleet of Boeing 737 aircraft
- Expanded presence in Asia and Oceania by securing a two-year contract to supply FLYHTVoice, FLYHTLog and FLYHTHealth to an operator based in Kazakhstan and by selling two additional AFIRS kits to an airline based in Papua New Guinea
- An amendment to the contract to supply Aircraft Meteorological Data Relay (AMDAR) weather data to Environment and Climate Change Canada in the Canadian government (original contract: press release Sept 18, 2019), thereby expanding FLYHT's weather-related revenue streams

Third Quarter

During the third quarter of 2019, the Company secured an aggregate of US$1.0 million in sales contracts and purchase orders, including:

- A purchase order from Azur Havacilik A.S (Azur Aviation), an existing customer, to install five AFIRS kits on their Boeing 777 fleet to enable FLYHTVoice, FLYHTLog and FLYHTASD. After completion of this order, FLYHT will have installed AFIRS kits throughout the entire Azur fleet of Boeing 737 Next Gen's, Boeing 757's, Boeing 767's, and Boeing 777 aircraft.
- A purchase order from Avmax Chad to enable three aircraft with FLYHTVoice, FLYHTASD, and FLYHTHealth.
- A purchase order from an existing North American charter operator customer for one additional AFIRS kit as well as FLYHTVoice, FLYHTLog and FLYHTFuel.

1. https://www.iata.org/en/pressroom/pr/2020-02-06-01/
2. https://www.iata.org/en/pressroom/pr/2020-02-05-01/
3. https://www.airbus.com/newsroom/press-releases/en/2020/01/airbus-delivers-strong-2019-commercial-aircraft-performance.html
4. https://boeing.mediaroom.com/2020-01-14-Boeing-Announces-Fourth-Quarter-Deliveries
5. https://markets.businessinsider.com/news/stocks/embraer-s-a-embraer-delivers-198-total-jets-in-2019-1028918487
6. https://www.ainonline.com/aviation-news/business-aviation/2020-01-16/bombardier-bizjet-deliveries-short-target
7. https://tradingeconomics.com/canada/currency

- A purchase order from an international aircraft manufacturer for AFIRS to perform integration and certification as the Satcom option for future aircraft deliveries.
- A purchase order from a current Chinese cargo carrier customer for three additional AFIRS aircraft kits.
- A purchase order from a current Chinese airline customer for one additional AFIRS kit.
- A purchase order for technical services from an Asia-Pacific airline and modems from an original equipment supplier partner.

Second Quarter

Sales contracts and purchase orders secured during the second quarter of 2019, totaled US $3.0 million, including:

- A five-year contract renewal with a Middle East cargo/shipping operator, which provides the operator with continued access to FLYHTLog and FLYHTHealth and expands the previous contract to include FLYHTFuel
- A purchase order from a current Chinese carrier customer for an additional AFIRS aircraft kit, and an expansion of a software as a service (SaaS) contract with a separate Chinese carrier
- An order for an additional AFIRS kit from an existing aircraft leasing company customer
- An agreement with the Uganda National Airlines Company to install AFIRS on four of its aircraft

First Quarter

During the first quarter of 2019, FLYHT secured an aggregate of US$2.47 million in sales contracts and purchase orders, including:

- A new African customer for UpTime data services including FLYHTLog, FLYHTHealth and FLYHTASD. This customer has received leased aircraft with AFIRS already installed and has enabled these services through a service contract.
- Contract renewals with two existing customers, one operating in North America and one in the Middle East
- Sales of AFIRS hardware kits to two existing operators in China and one in Africa
- Services or spare parts to a meteorological agency, an African operator and an Asian-Pacific operator
- Orders from existing customer Azur Aviation who signed a contract for US $740,000 for AFIRS units to meet Future Air Navigation System (FANS) regulatory requirements

Achievements & Activities

FLYHT accomplished several achievements which were identified throughout the year. This section identifies these successes by quarter. Total AFIRS or FlightLink units shipped by FLYHT increased to 2,668 as of December 31, 2019 compared to 2,241 units at the same time last year.

Fourth Quarter

- Issued the Company’s first FAA Form 8130-3 for airworthiness approval of an AFIRS unit out of Littleton, CO in November 2019. This Authorized Release Certificate attests that AFIRS units manufactured in the Littleton facility under 14 CFR part 21, conform to their design and are in a condition for safe operation as defined by the FAA.
- Successfully closed CAD$6.7 million private placement to diversify FLYHT’s product offering, expand sales and marketing efforts, and fund general working capital (see press releases November 15 and November 25, 2019).

Third Quarter

- Reported a sales order backlog of more than $50 million*
- Successfully completed the integration of PWS assets, known as the “OneFLYHT” Program, which were acquired in October 2018.
- Announced the appointment of Captain Mary I. McMillan to the Company’s Board of Directors
- Expanded a licensing agreement with L3Harris Technologies to customize the AFIRS 228S for use as the Satcom option on the Airbus A220 family of aircraft; expanding the agreement which previously established L3Harris’ AFIRS 228S as the Satcom option for the Airbus A320 and A330 families.
- Received the Chinese Validation of our newest FAA Airbus A320 AFIRS STC which includes all models of the A320 family, including the “New Engine Option” (NEO). FLYHT also received FAA validation of our Transport Canada STC for the Bombardier Q400.

Second Quarter

- Received Parts Manufacturer Approval (PMA) from the Federal Aviation Administration (FAA) to manufacture the AFIRS family of products within the United States. Currently, the Company manufactures AFIRS products in Canada under authority granted by Transport Canada. This new FAA authorization enables the Company’s facilities in Calgary, AB and Littleton, CO to be more flexible in their production of aircraft parts.
- Continued progress in the “OneFLYHT” integration program, including:
    - Successful manufacture of the first TAMDAR sensor since acquiring the assets of Panasonic Weather Solutions in October 2018. The Company remains on target to begin shipping these products in the third quarter of this year.
    - Completion of AS9100D Quality Management Systems – Requirements for Aviation, Space and Defense Organizations re-certification for its Calgary facility. The Company remains on track to establish a multi-site certification, which would include both the Calgary and Littleton facilities, in the latter portion of 2019.
- Extended the May 2018 services agreement with Adelaide Capital Markets Inc. for a second term of 12 months.

First Quarter

- Appointed seasoned aviation executive Nina Jonsson to the FLYHT Board of Directors
- Relocated CEO Thomas R. Schmutz’s office to Littleton, CO; FLYHT’s headquarters remain in Calgary, Canada
- Augmented the Company’s investor relations strategy by the engagement of Liolios (Gateway Group Inc.) to expand focus and outreach on U.S. markets
- The following STC’s were issued to FLYHT in Q1 2019:
    - State Aviation Administration of Ukraine (SAAU) for the Boeing 737-300/400/500/700/800
    - State Aviation Administration of Ukraine (SAAU) for the Boeing 767-300; and
    - STC Validation (STCV) from the Egyptian Civil Aviation Authority (ECAA) for the Airbus A319-100 Series, A320-200 Series and A321-100/-200 Series

Sales order backlog is the sum of purchase orders and contracts for all unrecognized technical services, licenses, hardware and the future value of contracted SaaS products. These signed contracts or purchase orders have been previously announced in various press releases. Backlog value for contracts deemed unlikely to manifest is removed. Twelve months of SaaS product value is included in backlog if a customer is currently paying for SaaS products under a contract that has exceeded its original term and is auto-renewing annually for subsequent one-year terms. The sales order backlog value assumes that FLYHT provides hardware and services over the full scope and term of the constituent contracts.

On average, there are 23 months remaining in the SaaS contracts that are included in backlog as of December 31, 2019. The timing of recognition of the Hardware component of sales order backlog is dependent on customer schedules that are subject to change. The majority of the aircraft contributing toward Hardware sales order backlog have been agreed to in contracts with initial terms of five years, with customers anticipating installation to occur typically within the first half of that contract term. The risks involved in this revenue stream are further discussed in the ‘Risks and Uncertainties > Installations at c-checks’ section of this management discussion and analysis.

Results of Operations

Selected Results

2019	Q4 $	Q3 $	Q2 $	Q1 $
Assets	14,736,226	11,529,110	10,988,820	12,177,007
Non-current financial liabilities	4,618,014	4,685,813	4,862,450	5,532,865
Revenue	4,281,612	5,197,446	6,350,349	5,341,752
Cost of sales	1,595,421	2,674,856	2,141,376	2,432,704
Gross margin	2,686,191	2,522,590	4,208,973	2,909,048
Gross margin %	62.7%	48.5%	66.3%	54.5%
Distribution expenses	1,992,477	1,941,927	2,294,519	2,066,846
Administration expenses	1,199,149	941,060	1,118,420	955,290
Research, development and certification engineering expenses	1,100,961	939,935	1,020,747	707,871
Results from operating activities	(1,606,396)	(1,300,332)	(224,713)	(820,959)
Depreciation	253,614	215,881	191,591	180,332
Other income	641,296	623,544	1,544,756	1,316,977
EBITDA*	(711,486)	(460,907)	1,511,634	676,350
Income (loss)	(1,212,971)	(777,648)	1,037,326	206,658
Income (loss) per share (basic)	(0.06)	(0.04)	0.05	0.01
Income (loss) per share (fully diluted)	(0.06)	(0.04)	0.05	0.01
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
Other income	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	(0.04)	(0.03)	(0.03)
Income (loss) per share (fully diluted)	0.01	(0.04)	(0.03)	(0.03)

**See Non-GAAP Financial Measures*

Weighted Average Shares Outstanding

	2019 $	2018 $	2017 $
Basic	21,861,196	21,058,855	20,926,589
Diluted	22,028,060	21,132,875	20,926,589

Financial Position

Liquidity and Capital Resource

The Company's cash and cash equivalents at December 31, 2019 increased to $4,127,648 from $2,406,769 at December 31, 2018. 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, 2019.

On November 15, 2019, the Company closed the first tranche of a private placement, issuing 4,792,400 units for gross proceeds of $5,990,500, with the second and final tranche, consisting of 542,820 units for gross proceeds of $678,525, closing on November 25, 2019. Each unit consisted of one common share and one-half of one share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share of the Company for a period of 24 months from the issuance of the units at a price of $1.75. Agents were paid a cash commission of 7% of the gross proceeds. A total of 335,468 agent warrants were also issued, each exercisable into one common share at $1.25 per unit within 24 months from the closing date. A corporate finance fee of $45,000 was also paid, together with 35,000 corporate finance warrants, each exercisable into one common share at a price of $1.25 for a period of 24 months. All common shares and warrants issued pursuant to the private placement were subject to a 4-month hold period.

Of the total proceeds received, $1,115,506 net of transaction costs of $160,970, was allocated to the warrants issued, with the remaining $5,553,519 net of transactions costs of $801,384, being allocated to the shares issued.

At December 31, 2019, the Company had positive working capital of $7,324,479 compared to positive $2,878,024 as of December 31, 2018, an increase of $4,446,455.

The Company funded 2019 operations primarily through the proceeds from the November 2019 private placement, cash received from sales, contributions from the Western Innovation Initiative (WINN), and subsidies paid by PAC from the October 2018 asset acquisition. The Company will receive a final subsidy amount from PAC in Q1 2020 and will strive to self-fund operations through the remainder of 2020.

	2019 $	2018* $	Variance $
Cash and cash equivalents	4,127,648	2,406,769	1,720,879
Trade and other receivables	4,980,405	3,440,767	1,539,638
Contract assets	256,125	395,695	(139,570)
Deposits and prepaid expenses	797,759	227,065	570,694
Inventory	1,672,068	1,066,946	605,122
Trade payables and accrued liabilities	(2,346,560)	(2,342,754)	(3,806)
Customer deposits	(160,706)	(661,833)	501,127
Contract liabilities	(658,655)	(1,524,894)	866,239
Loans and borrowings	(718,015)	(129,465)	(588,550)
Lease liability	(625,590)	-	(625,590)
Current tax liabilities	-	(272)	272
Working capital*	**7,324,479**	**2,878,024**	**4,446,455**

*See Non-GAAP Financial Measures

In 2019 there were no share issuances resulting from the exercise of warrants nor options. There were 250,491 shares upon conversion of debentures.

As at April 8, 2020 FLYHT's issued and outstanding share capital was 26,663,861.

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 provided 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. At December 31, 2019, the Company had positive working capital of $7,324,479 compared to positive $2,878,024 as of December 31, 2018, an increase of $4,446,455. The Company ended 2019 with balances of $4.1 million in cash and cash equivalents, an undrawn credit facility of $1.5 million, and $2.6 million in contributions under WINN loans not yet received. The Company's operating results and cash flows from operations are negative in both 2019 and 2018.

For the Company to continue as a going concern longer-term, it will need to achieve profitability and positive operating cash flows. The Company will continue to expand its earnings and cash flow potential through its focused marketing efforts, expected to result in additional 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.

Until achieving positive earnings and cash flows, it is the Company's intention to continue to fund operations through revenue and its resulting cash flow as well as continue to manage outgoing cash flows. The Company may have to scale back operations to create positive cash from existing revenue and/or raise the necessary financing in the capital markets through debt and/or equity.

General economic conditions in the industry and the financial condition of major customers may significantly impact the Company's ability to achieve positive earnings and cash flows. The global airline industry has been significantly impacted by the consequences of the global COVID-19 worldwide outbreak. The reduction in the number of flights may impact the amount of SaaS revenue generated by the Company, while deferred and/or lower investments in airplanes may negatively impact the Company's hardware and license revenues. This situation may also impact the Company's ability to obtain financing.

There is no assurance that the Company will be successful in attaining and sustaining profitable operations and positive cash flow and/or raising additional capital to meet its 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 material uncertainties may cast doubt upon the Company's ability to continue as a going concern. The 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, 2019	**< 2 months $**	**2-12 months $**	**1-2 years $**	**2-5 years $**	**> 5 years $**	**Total $**
Accounts payable	1,800,915	11,033	-	-	-	1,811,948
Compensation and statutory deductions	59,429	363,349	-	-	-	422,778
Accrued liabilities	33,076	78,758	-	-	-	111,834
Lease payments	154,930	470,660	426,569	114,596	-	1,166,755
Loans and borrowings	117,000	603,769	2,593,969	2,203,494	1,585,047	7,103,279
Total	**2,165,350**	**1,527,569**	**3,020,538**	**2,318,090**	**1,585,047**	**10,616,594**

Under the Strategic Aerospace and Defence Initiative (SADI), the Company has, at December 31, 2019, an outstanding repayable balance of $1,370,247, compared to $1,507,481 at December 31, 2018. 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 2019 totaled $137,234 (2018: $119,333).

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, 2019, the Company had received contributions totaling $2,350,000 (2018: $2,137,202).

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, 2019, the Company had received contributions totaling $163,782 (2018: nil).

A summary of the carrying value of the SADI and WINN loans as at December 31, 2019 and 2018 and changes during these years is presented below.

	2019 $		2018 $	
	SADI	**WINN**	**SADI**	**WINN**
Balance January 1	1,252,743	1,569,663	1,162,679	792,338
Received	-	376,580	-	1,056,544
Grant portion	-	(114,605)	-	(391,697)
Interest accretion	224,753	171,597	209,397	112,478
Repayment	(137,234)	-	(119,333)	-
Balance December 31	**1,340,262**	**2,003,235**	**1,252,743**	**1,569,663**
Less current portion	151,750	439,899	129,465	-
Non-current portion	1,188,512	1,563,336	1,123,278	1,569,663

Convertible Debenture

The Debentures were issued on July 24, 2018 and will mature on July 24, 2021 (if not converted prior to expiry) and bears interest at a rate of 8% per annum, which is accrued and paid annually in arrears. The Debentures are 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, 2019 and changes during the year is presented below.

	2019 $	2018 $
Balance January 1	1,727,773	-
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)
Interest payments	(133,949)	-
Conversions	(315,166)	-
Accrued interest	256,780	120,133
Balance December 31	**1,535,438**	**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, 2019 and 2018. Prepayment was received for 12 installation kits in the fourth quarter of 2019 compared to 8 received in the fourth quarter of 2018, bringing 2019 year-to-date ("YTD") total payments for installation kits to 91, compared to a total of 74 in 2018.

	Q4 2019 $	Q4 2018 $	Variance $	YTD 2019 $	YTD 2018 $	Variance $
Opening balance	215,611	925,225	(709,614)	661,833	1,687,971	(1,026,138)
Payments received	568,212	1,961,212	(1,393,000)	3,931,575	4,820,111	(888,536)
Recognized as revenue	(623,117)	(2,224,604)	1,601,487	(4,432,702)	(5,846,249)	1,413,547
Balance, December 31	**160,706**	**661,833**	**(501,127)**	**160,706**	**661,833**	**(501,127)**

Comprehensive Income

Revenue

Software as a Service (**SaaS)** is the recurring revenue from the Company's products that allow 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. Effective in 2019, this category also includes a license for exclusive access to weather data sets. **Technical Services** includes all services offered by the Company, including repairs and other expertise.

Revenue sources

	Q4 2019 $	Q4 2018 $	Variance $	YTD 2019 $	YTD 2018 $	Variance $
SaaS	2,711,228	2,261,211	450,017	10,246,685	5,528,822	4,717,863
Hardware	657,577	1,464,475	(806,898)	6,651,673	5,536,687	1,114,986
Licensing	772,466	249,833	522,633	3,241,285	2,265,262	976,023
Technical Services	140,341	58,307	82,034	1,031,516	259,745	771,771
Total	**4,281,612**	**4,033,826**	**247,786**	**21,171,159**	**13,590,516**	**7,580,643**

Overall, total revenue increased 55.8% from $13,590,516 in 2018 to $21,171,159 in 2019. Revenue increased in all four categories: SaaS revenues increased by 85.3%, Hardware increased by 20.1%, Licensing increased by 43.1%, and Technical Services revenue increased by 297.1%.

SaaS Recurring revenue accounted for 63.3% of revenue in Q4 2019 (Q4 2018: 56.1%), and 48.4% YTD 2019 (YTD 2018: 40.7%). A large portion of the increase in SaaS from 2018 – 2019 is due to the acquisition of customer contracts from PAC in October 2018, however there has also been organic growth when comparing Q4 2018 to Q4 2019.

Hardware sales increased in 2019 as compared to 2018 due to an increased number of installation kits being shipped, particularly in the first half of 2019. A total of 133 installation kits were shipped in 2019, compared to 99 in 2018.

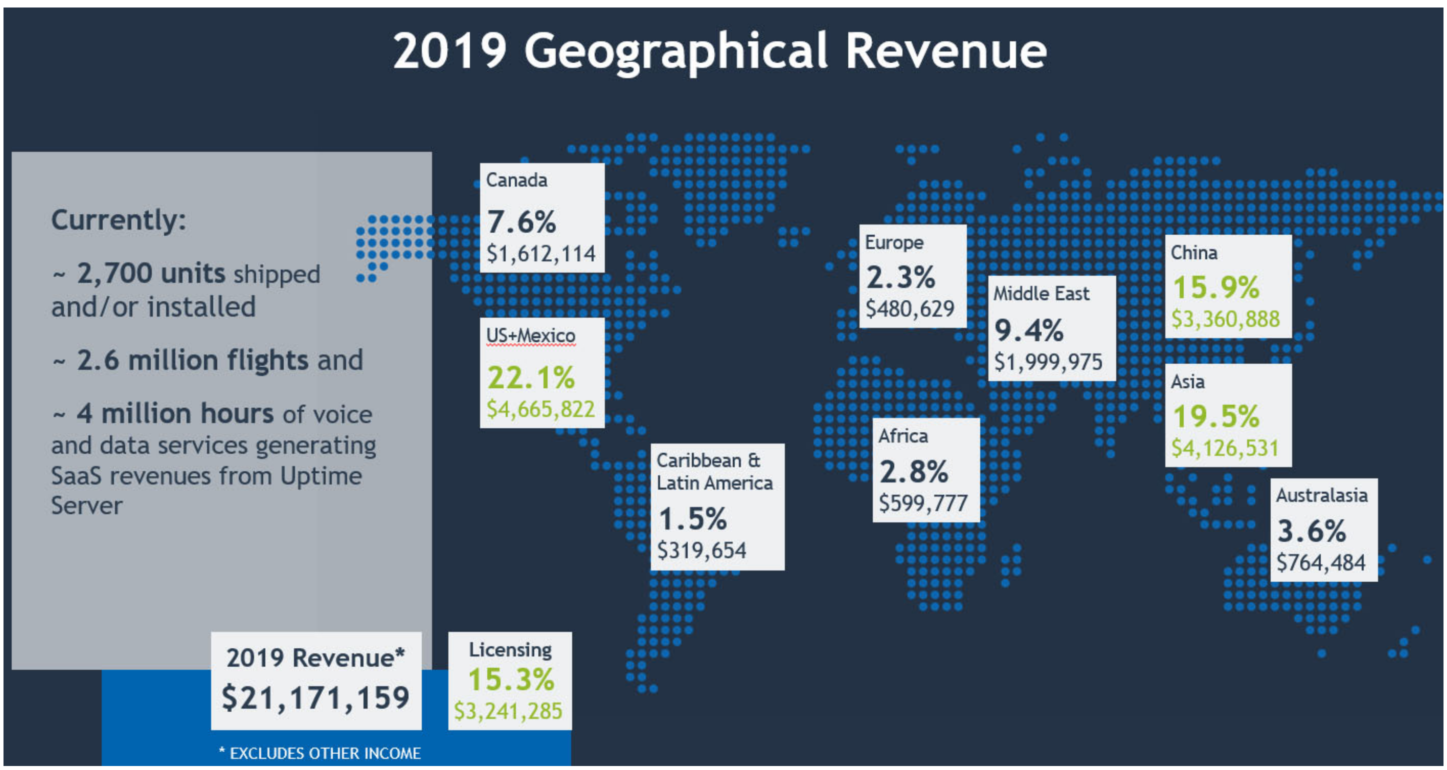
Licensing increased both in the quarter and YTD in 2019 from 2018 due to differences in the number of modems with related license fees shipped.

Technical Services revenue increased both in the quarter and YTD. 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 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018
SaaS	2,711,228	2,649,345	2,480,880	2,405,232	2,261,211	1,145,368	1,079,214	1,043,030
Hardware	657,577	1,864,523	1,754,672	2,374,901	1,464,475	1,651,592	854,350	1,566,270
Licensing	772,466	589,546	1,501,513	377,760	249,833	265,492	1,122,974	626,962
Technical Services	140,341	94,032	613,284	183,859	58,307	29,661	89,728	82,049
Total	**4,281,612**	**5,197,446**	**6,350,349**	**5,341,752**	**4,033,826**	**3,092,113**	**3,146,266**	**3,318,311**

	Q4 2019 $	Q4 2018 $	YTD 2019 $	YTD 2018 $
United States & Mexico	1,963,440	1,355,882	7,907,107	4,099,732
Asia	858,485	320,919	4,126,531	403,110
China	466,239	1,014,914	3,360,888	2,677,686
Middle East	179,083	197,492	1,999,975	1,794,439
Canada	260,191	396,377	1,612,114	1,922,368
Australia	275,396	159,429	764,484	646,989
Africa	146,683	255,776	599,777	588,473
Europe	53,360	86,676	480,629	797,712
South/Central America	78,735	246,361	319,654	660,007
Total	**4,281,612**	**4,033,826**	**21,171,159**	**13,590,516**



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 2019 was 37.3% compared to 44.0% in 2018's fourth quarter. A review of the annual results shows the cost of sales as a percentage of revenue also increased from 40.7% in 2018 to 41.8% in 2019. The decrease in gross margin was due to differences in the mix of revenue sources in 2019 versus 2018. Gross margin will fluctuate quarter over quarter depending on customer needs and revenue mix.

Gross margin for the last eight quarters was:

	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018
Gross Margin %	62.7	48.5	66.3	54.5	56.0	56.5	65.8	59.9
Cost of Sales	37.3	51.5	33.7	45.5	44.0	43.5	34.2	40.1

Distribution Expenses

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

Major Category	Q4 2019 $	Q4 2018 $	Variance $	YTD 2019 $	YTD 2018 $	Variance $
Salaries and benefits	1,200,751	1,435,259	(234,508)	5,889,166	3,592,664	2,296,502
Share based compensation	8,825	6,093	2,732	38,346	40,068	(1,722)
Contract labour	175,557	163,901	11,656	637,992	725,677	(87,685)
Office	49,324	134,483	(85,159)	223,896	402,191	(178,295)
Travel	124,853	179,903	(55,050)	566,700	647,515	(80,815)
Equipment and maintenance	12,101	17,330	(5,229)	59,132	190,470	(131,338)
Depreciation	122,211	13,685	108,526	527,994	37,641	490,353
Marketing	53,962	26,415	27,547	116,703	165,615	(48,912)
Other	244,893	98,148	146,745	235,840	191,395	44,445
Total	**1,992,477**	**2,075,217**	**(82,740)**	**8,295,769**	**5,993,236**	**2,302,533**

Distribution expenses increased 38.4% from 2018 to 2019, due mainly to increased people costs.

Salaries and benefits have increased in the due to the addition of staff in Q4 2018 with the acquisition of PWS.

Equipment and maintenance expenses have decreased YTD as a one-time payment required for a licensing agreement in 2018 did not recur.

Depreciation expense was higher and **Office** expense has decreased throughout 2019 compared to 2018 resulting from the January 1, 2019 implementation of IFRS 16 which moved the expenses of our leased asset costs from office expense to depreciation.

Other expense reflects differences in bad debt reserve both in Q4 and YTD 2019.

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 2019 $	Q4 2018 $	Variance $	YTD 2019 $	YTD 2018 $	Variance $
Salaries and benefits	587,543	527,278	60,265	2,004,409	1,457,388	547,021
Share based compensation	22,141	156,112	(133,971)	101,328	190,209	(88,881)
Contract labour	93,073	123,394	(30,321)	399,400	289,983	109,417
Office	132,054	119,363	12,691	475,049	376,094	98,955
Legal fees	3,920	53,029	(49,109)	39,700	195,143	(155,443)
Audit and accounting	62,861	71,627	(8,766)	293,823	197,852	95,971
Investor relations	58,014	45,570	12,444	210,772	149,071	61,701
Travel	70,071	44,283	25,788	225,769	120,297	105,472
Equipment and maintenance	56,289	73,298	(17,009)	213,973	166,179	47,794
Depreciation	96,374	27,570	68,804	181,564	80,381	101,183
Other	16,809	16,573	236	68,132	29,011	39,121
Total	**1,119,149**	**1,258,097**	**(58,948)**	**4,213,919**	**3,251,608**	**962,311**

Administration expenses increased by 29.6% from 2018 to 2019.

Salaries and benefits have increased in the quarter due to the addition of PWS staff in Q4 2018.

Contract labour increased due to the addition of IT resources for our US location and increased coverage to support investor relations.

Legal fees have decreased as year-to-date 2018 contained costs related to the asset acquisition and **Audit and accounting** have increased due to the changing review and support requirements resulting from the acquisition.

Travel expenses have increased over 2018 both in the quarter and YTD, due to activities relating to the integration of PWS assets and the resulting increase in travel between the Company's two locations.

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 2019 $	Q4 2018 $	Variance $	YTD 2019 $	YTD 2018 $	Variance $
Salaries and benefits	931,011	715,446	215,565	3,203,141	2,443,060	760,081
Share based compensation	3,707	3,003	704	13,889	8,008	5,881
Contract labour	115,326	54,978	60,348	255,994	225,529	30,465
Office	42,443	30,618	11,825	144,770	79,263	65,507
Travel	10,946	21,242	(10,296)	103,357	75,196	28,161
Equipment and maintenance	2,885	10,632	(7,747)	13,297	69,733	(56,436)
Components	(30,222)	23,273	(53,495)	16,904	77,399	(60,495)
Depreciation	35,067	15,838	19,229	131,860	43,437	88,423
Government grants	(10,819)	(85,851)	75,032	(114,605)	(391,697)	277,092
Other	617	24	593	907	1,517	(610)
Total	**1,100,961**	**789,203**	**311,758**	**3,769,514**	**2,631,445**	**1,138,069**

Research and Development expenses were 43.2% higher in 2019 compared to the prior year. The main contributors to the increase were increased people costs and a lower level of government grants received. Research and development costs vary according to specific project requirements.

Salaries and benefits expense increased in 2019 as a result of increased staffing levels and increased R&D-type project activities.

A decrease in the amount of **Government grants** received was due to differences in expenses eligible for funding under the WINN program in 2019 versus 2018. The recoveries shown are the portion of funds received from WINN that have been accounted for as a grant.

Net Finance Costs

Major Category	Q4 2019 $	Q4 2018 $	Variance $	YTD 2019 $	YTD 2018 $	Variance $
Interest (income)	(13,290)	(7,712)	(5,578)	(29,810)	(16,628)	(13,182)
Net foreign exchange loss (gain)	65,962	(139,411)	205,373	172,495	(189,971)	362,466
Bank service charges	7,786	6,973	813	29,942	26,849	3,093
Interest expense	21,225	174	21,051	95,050	2,719	92,331
Government loan accretion	105,147	89,731	15,416	396,351	321,875	74,476
Debenture interest and accretion	61,037	79,854	(18,817)	256,780	120,132	136,648
Net finance costs	**247,867**	**29,609**	**218,258**	**920,808**	**264,976**	**655,832**

Net foreign exchange loss (gain) will vary between periods due to fluctuations in the value of the Canadian dollar in relation to the U.S. dollar. A YTD strengthening of the Canadian dollar has given rise to foreign exchange losses in 2019 versus gains in 2018 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 2019 $	Q4 2018 $	Variance $	YTD 2019 $	YTD 2018 $	Variance $
Net income (loss)	(1,212,971)	217,954	(1,430,925)	(746,635)	(1,966,748)	1,220,113

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 2019, 99% of the Company's gross sales were made in U.S. dollars, unchanged from 2018. The Company expects this to continue as the aviation industry conducts the majority of its transactions in U.S. dollars, thus limiting the opportunity for sales in Canadian dollars or other major currencies. The Company also contracts in U.S. dollars for certain services and products related to cost of sales, which creates a natural hedge.

Other

Recent Accounting Pronouncements

The Company adopted IFRS 16 *Leases,* effective January 1, 2019. IFRS 16 introduced a single, on-balance sheet accounting model for lessees. As a result, the Company recognized right-of-use assets for an amount of $1,548,834, representing its rights to use the underlying assets and the same amount of lease liabilities representing its obligation to make lease payments. The Company applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings at January 1, 2019. Accordingly, the comparative information presented for 2018 has not been restated.

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.

Impact of COVID-19 to Commercial Air Industry

As outlined in the subsequent event section and in other areas of this financial report, the negative impact to the commercial air industry by the COVID-19 pandemic is unprecedented. FLYHT expects to see near and intermediate term risk in all aspects of revenue and payment due to the impact of the pandemic on our customers. This risk will also imperil FLYHT's cashflows until such a time as the industry recovers. There exists a possibility that an extended industry recovery could cause FLYHT to dramatically diminish the scale of its operations and, in the limit, become illiquid.

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 several 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 250 aircrafts. 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.

In general, there are many risks associated with the pursuit, the prosecution, the ultimate receipt of and the enforceability or defense of patents. The scope of patent protection available to us in the United States and in other countries is uncertain. Changes in either the patent laws or their interpretation in the United States and other countries may diminish our ability to protect our inventions, obtain, maintain and enforce our intellectual property rights and, more generally, could affect the value of our intellectual property or narrow the scope of our owned patents.
The patent prosecution process is expensive, time-consuming, and complex, and we may not be able to file, prosecute, maintain, enforce, or license all necessary or desirable patent applications at a reasonable cost or in a timely manner. It is also possible that we will fail to identify patentable aspects of our research and development output in time to obtain patent protection.

The patent position of advanced technology companies generally is highly uncertain, involves complex legal and factual questions, and has been the subject of much litigation in recent years. As a result, the issuance, scope, validity, enforceability, and commercial value of our patent rights are highly uncertain. Our pending and future patent applications may not result in patents being issued which protect our technology or product candidates or which effectively prevent others from commercializing competitive technologies and products.

The ultimate outcome of any pending or allowed patent application we file is uncertain and the coverage claimed in a patent application can be significantly reduced before the patent is issued, and its scope can be reinterpreted after issuance. Any patents that we hold may be challenged, narrowed, circumvented, or invalidated by third parties. Consequently, we do not know whether any of our technology will be protectable or remain protected by valid and enforceable patents.

The issuance of a patent is not conclusive as to its inventorship, scope, validity or enforceability and our patents may be challenged in the courts or patent offices in the United States and in other jurisdictions. Competitors may claim that they invented the inventions claimed in such issued patents or patent applications prior to our inventors or may have filed patent applications before our inventors did. A competitor may also claim that our products and services infringe its patents and that we therefore cannot practice our technology as claimed under our patent applications, if issued. Competitors may also contest our patents, if issued, by showing that the invention was not patent-eligible, was not novel, was obvious or that the patent claims failed any other requirement for patentability.

Transactions with Related Parties

A company controlled by a director of FLYHT 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 three months ended December 31		**For the year ended December 31**	
Amounts included in:	**2019 $**	**2018 $**	**2019 $**	**2018 $**
Contract labour	-	-	-	12,900

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 Chinese government has continued with a process of issuing waivers for the use of the Iridium frequency to aircraft needed for usage in China. This is the same process that they have used for many years, but have now gone to issuing three-year grants to Iridium Communications Inc. versus a yearly grant that they had in the past. Given the prevalent use of Iridium services in China and the extensions of waivers reported by Iridium Communications Inc., the likelihood of a liability under these contracts is considered to be remote.

Subsequent Event

While most industries have felt the effects of COVID-19 over the past few months, the pandemic has substantially impacted commercial aviation. From early January 2020 through the end of March 2020, daily departures from major airports have declined significantly. International travel has been severely curtailed, and airlines are taking extraordinary measures to preserve cash. Industry layoffs and furloughs have been accelerating, accounts payable have been pushed out, and capital equipment orders have been delayed or restructured.

Due to the equity raise in November 2019, which improved the Company's working capital, and the operational progress made throughout 2019, the Company entered 2020 with a relatively robust cash position. However, the Company anticipates reduced revenues in the near-term due to customers rescheduling orders and decreases in air traffic, which will impact the Company's corresponding SaaS revenues. The Company expects to continue receiving uninterrupted revenues from other sources during this challenging period. Additionally, the Company is discussing with customers the possibility of accelerating installations on aircraft that have been or will be grounded.

To preserve the Company's liquidity through this period of commercial aviation uncertainty, the following measures have been undertaken:

- Instituting a company-wide travel ban to protect employees and reduce associated costs
- Postponing new hires (with minimal exceptions)
- Initiating internal cost cutting measures
- Pursuing small business disaster loan assistance in the United States
- Pursuing business credit programs through Export Development Canada (EDC) and/or the Business Development Bank of Canada (BDC)
- Pursuing work-share programs from the government of Canada and the state of Colorado
- Engaging suppliers for extended payment terms

The Company will continue to monitor the industry conditions and implement these measures, as well as consider additional cash saving efforts, as the current situation dictates.

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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, 2019 and December 31, 2018;
- the consolidated statements of comprehensive loss for the years then ended;
- the consolidated statements of changes in equity (deficit) 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, 2019 and December 31, 2018, 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(d) in the consolidated financial statements, which indicates that the Company's operating results and cash flows from operations are negative in both 2019 and 2018.

As stated in Note 2(d) in the consolidated financial statements, these events or conditions, along with other matters as set forth in Note 2(d) in the consolidated 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.

Emphasis of Matter – Prospective Change in Accounting Policy

We draw attention to Note 3 to the consolidated financial statements which indicates that the Company has changed its accounting policy for leases and has applied that change using the modified retrospective method.

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.
- the information, other than the financial statements and the auditor's report thereon, included in a document likely to be entitled "2019 Annual Report".

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.

Information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "2019 Annual Report" is expected to be made available to us after the date of this auditors' report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

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 International Financial Reporting Standards ("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
Calgary, Canada
April 8, 2020

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	December 31, 2019	December 31, 2018
	$	$
Assets		
Current assets		
Cash and cash equivalents (note 6)	4,127,648	2,406,769
Trade and other receivables (note 7)	4,980,405	3,440,767
Contract assets	256,125	395,695
Deposits and prepaid expenses	797,759	227,065
Inventory (note 8)	1,672,068	1,066,946
Total current assets	11,834,005	7,537,242
Non-current assets		
Property and equipment (note 9)	1,337,306	480,270
Intangible assets (note 10)	34,992	34,992
Inventory (note 8)	1,529,923	1,044,766
Total non-current assets	2,902,221	1,560,028
Total assets	**14,736,226**	**9,097,270**
Liabilities		
Current liabilities		
Trade payables and accrued liabilities (note 11)	2,346,560	2,342,754
Customer deposits (note 12)	160,706	661,833
Contract liabilities (note 13)	658,655	1,524,894
Loans and borrowings (note 14)	718,015	129,465
Lease liability (note 15)	625,590	-
Current tax liabilities (note 25)	-	272
Total current liabilities	4,509,526	4,659,218
Non-current liabilities		
Loans and borrowings (note 14)	4,160,920	4,420,714
Lease liability (note 15)	457,094	-
Provisions (note 16)	30,202	43,701
Total non-current liabilities	4,648,216	4,464,415
Total liabilities	**9,157,742**	**9,123,633**
Equity (deficit)		
Share capital (note 17)	63,508,080	58,430,455
Convertible debenture – equity feature	173,524	207,273
Warrants (note 17)	1,247,311	50,712
Contributed surplus	10,647,771	10,494,208
Cumulative translation adjustment	(32,176)	35,638
Deficit	(69,966,026)	(69,244,650)
Total equity (deficit)	5,578,484	(26,364)
Total liabilities and equity	**14,736,226**	**9,097,270**

See accompanying notes to consolidated financial statements, including the going concern note (note 2d).

On behalf of the board

Director – Bill Tempany

Director – Paul Takalo

CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS

	For the year ended December 31	
	2019 **$**	**2018** **$**
Revenue (note 19)	21,171,159	13,590,516
Cost of sales	8,844,357	5,524,696
Gross profit	12,326,802	8,065,820
Distribution expenses (note 21)	8,295,769	5,993,236
Administration expenses (note 22)	4,213,919	3,251,608
Research, development and certification engineering expenses (note 23)	3,769,514	2,631,445
Loss from operating activities	(3,952,400)	(3,810,469)
Other Income (note 20)	4,126,573	1,861,050
Finance income (note 24)	29,810	206,599
Finance costs (note 24)	950,618	471,575
Net finance costs	920,808	264,976
Loss before income tax	(746,635)	(2,214,395)
Income tax recovery (note 25)	-	(247,647)
Loss for the period	(746,635)	(1,966,748)
Foreign currency translation adjustment	(67,814)	54,892
Comprehensive loss for the period	(814,449)	(1,911,856)
Loss per share		
Basic and diluted loss per share (note 18)	(0.04)	(0.09)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (DEFICIT)

For the years ended December 31, 2019 and 2018

	Share Capital $	Convertible Debenture $	Warrants $	Contributed Surplus $	Cumulative Translation Adjustment	Deficit $	Total Equity (Deficit) $
Balance at December 31, 2018	58,430,455	207,273	50,712	10,494,208	35,638	(69,244,650)	(26,364)
Adjustments on initial applications of IFRS 16	-	-	-	-	-	25,259	25,259
Balance at January 1, 2019	58,430,455	207,273	50,712	10,494,208	35,638	(69,219,391)	(1,105)
Income for the period	-	-	-	-	(67,814)	(746,635)	(814,449)
Total comprehensive loss for the period	-	-	-	-	(67,814)	(746,635)	(814,449)
Contributions by and distributions to owners							
Issue of common shares	5,553,519	-	1,115,506	-	-	-	6,669,025
Share issue costs	(801,384)	-	(160,970)	-	-	-	(962,354)
Share-based payment transactions	-	-	-	153,563	-	-	153,563
Conversion of debt	325,490	(33,749)	-	-	-	-	291,741
Agent warrants issued	-	-	242,063	-	-	-	242,063
Total contributions by and distributions to owners	5,077,625	(33,749)	1,196,599	153,563	-	-	6,394,038
Balance at December 31, 2019	63,508,080	173,524	1,247,311	10,647,771	(32,176)	(69,966,026)	5,578,484
Balance at January 1, 2018	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)

CONSOLIDATED STATEMENT OF CASH FLOWS

	For the year ended December 31	
	2019	2018
	$	$
Cash flows used in operating activities		
Income (loss) for the period	(746,635)	(1,966,748)
Depreciation – property and equipment	834,479	161,489
Convertible debenture accretion	256,780	120,132
Lease liability accretion	91,977	-
Grant portion of contributions from WINN	(114,605)	(391,697)
Government loan accretion	396,350	321,875
Equity-settled share-based payment transactions	153,563	105,018
Warrant re-price	-	133,267
Bargain purchase	-	(658,920)
Change in inventories	(1,090,279)	835,266
Change in trade and other receivables	(1,499,567)	(1,690,798)
Change in contract assets	139,570	(82,061)
Change in prepayments	(570,694)	164,126
Change in trade and other payables	(45,525)	469,051
Change in customer deposits	(501,127)	(1,026,138)
Change in contract liabilities	143,309	-
Change in provisions	37,454	(32,205)
Provision realized	(50,953)	(15,807)
Unrealized foreign exchange loss/(gain)	23,725	(110,142)
Other interest expense	95,050	2,719
Interest paid	(208,848)	(2,719)
Interest income	(29,810)	(16,628)
Interest received	23,384	16,628
Income tax expense (recovery)	-	(247,647)
Income tax paid	(272)	(8,272)
Net cash used in operating activities	(2,630,876)	(3,920,211)
Cash flows used in investing activities		
Acquisitions of property and equipment (PPE)	(169,326)	(96,224)
Disposal of PPE	6,938	-
Net cash used in investing activities	(162,388)	(96,224)
Cash flows from financing activities		
Subsidy payment received	3,116,935	2,727,024
Less subsidy recognized (note 13)	(4,126,573)	(1,202,130)
Net proceeds from private placement	5,948,733	-
Proceeds from debenture	-	1,865,624
Proceeds from exercise of share options and warrants	-	16,000
Contributions from WINN	376,580	1,056,543
Repayment of borrowings	(137,234)	(119,333)
Lease payments	(544,583)	-
Net cash from financing activities	4,633,858	4,343,728
Net increase in cash and cash equivalents	1,808,796	327,293
Cash and cash equivalents, beginning	2,406,769	2,014,135
Effect of exchange rate fluctuations on cash held	(87,917)	65,341
Cash and cash equivalents, ending	4,127,648	2,406,769

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, 2019 and 2018 consist of the results of the Company and its subsidiaries.

FLYHT improves aviation safety, efficiency and profitability by providing airlines, leasing companies, owners, operators and original equipment manufacturers with real-time insights into how their aircraft are performing. The Company's products include AFIRS™ (Automated Flight Information Reporting System), a satellite communications (Satcom) aircraft interface device (AID) which enables real-time streaming of flight information, aircraft tracking and health monitoring, fuel management, and black box data streaming, as well as TAMDAR™ (Tropospheric Airborne Meteorological Data Reporting), which aggregates and streams airborne weather data in real-time.

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 8, 2020.

(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.

(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, 2019, the Company had positive working capital of $7,324,479 compared to positive $2,878,024 as of December 31, 2018, an increase of $4,446,455. The Company ended 2019 with balances of $4.1 million in cash and cash equivalents, an undrawn credit facility of $1.5 million, and $2.6 million in contributions under WINN loans not yet received. The Company's operating results and cash flows from operations are negative in both 2019 and 2018.

For the Company to continue as a going concern longer-term, it will need to achieve profitability and positive operating cash flows. The Company will continue to expand its earnings and cash flow potential through its focused marketing efforts, expected to result in additional contracts for delivery of hardware units and related services. Additionally, the acquisition of PWS in 2018 provides the Company the opportunity to realize efficiencies of scale through increasing both service and hardware revenues.

Until achieving positive earnings and cash flows, it is the Company's intention to continue to fund operations through revenue and its resulting cash flow as well as continue to manage outgoing cash flows. The Company may have to scale back operations to create positive cash from existing revenue and/or raise the necessary financing in the capital markets through debt and/or equity.

General economic conditions in the industry and the financial condition of major customers may significantly impact the Company's ability to achieve positive earnings and cash flows. The global airline industry has been significantly impacted by the consequences of the global COVID-19 worldwide outbreak. The reduction in the number of flights will impact the amount of SaaS revenue generated by the Company, while deferred and/or lower investments in airplanes may negatively impact the Company's hardware and license revenues. This situation may also impact the Company's ability to obtain financing. Refer to note 30 for additional details relating to the effects of COVID-19.

There is no assurance that the Company will be successful in attaining and sustaining profitable operations and positive cash flow and/or raising additional capital to meet its 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 material uncertainties may cast doubt upon the Company's ability to continue as a going concern. The 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 is 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. Changes in accounting policies

The Company adopted IFRS 16 *Leases,* effective January 1, 2019. IFRS 16 introduced a single, on-balance sheet accounting model for lessees. The Company applied IFRS 16 using the modified retrospective approach. Accordingly, the comparative information presented for 2018 has not been restated. As a result, the Company recognized right-of-use assets for an amount of $1,548,834, representing its rights to use the underlying assets and the same amount of lease liabilities representing its obligation to make lease payments.

Leases: accounting policy applicable prior to January 1, 2019:

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.

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.

Leases: accounting policy applicable effective January 1, 2019:

On transition to IFRS 16 as at January 1, 2019 the Company recognized ROA and lease liabilities of $1,548,834 and lease liabilities of $1,548,834.

	January 1, 2019
	$
Operating lease commitments disclosed under IAS 17, December 31, 2018	2,131,294
Discounted using the incremental borrowing rate at January 1, 2019	1,519,632
Finance lease liabilities recognized as at December 31, 2018	29,202
Lease liabilities recognized at January 1, 2019	1,548,834

On initial adoption of IFRS 16, the Company elected to use the following practical expedients, where applicable:

- For leases previously classified as finance leases, the Company has elected to measure the ROA as if the new standard had always been applied since commencement of the lease discounted using the incremental borrowing rate at the date of initial use.
- Initial indirect costs were excluded from the measurement of the ROA on date of initial application.
- Leases with a term of 12 months or less are excluded from the IFRS 16 lessee model and recognized directly in profit or loss in line with how leases have been treated historically.
- Leases for which the term ends within 12 months from January 1, 2019 will be recognized directly in profit or loss in line with how leases have been treated historically.
- Leases of low value will be excluded from the IFRS 16 lessee model and recognized directly in profit or loss in line with how leases have been treated historically.

The effect of adoption of IFRS 16 was as follows:

	December 31, 2018	IFRS 16 adjustments	January 1, 2019
	$	$	$
Assets			
Right-of-use assets	-	1,548,834	1,548,834
Current Liabilities			
Lease liability	-	580,073	580,073
Non-current Liabilities			
Lease liability	-	968,761	968,761
Equity			
Deficit	(69,244,650)	25,259	(69,219,391)

When measuring the lease liabilities at the date of adoption, the Company discounted lease payments using the Company's incremental borrowing rate. The weighted average rate of the incremental borrowing rate applied was 6.5%.

For the year ended December 31, 2019, the Company recognized depreciation expense of $609,730 related to ROA and accretion expense related to lease liabilities $91,977.

4. 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, except for the impact on comparative periods from the adoption of the new lease standard.

(a) Basis of consolidation

(i) Subsidiaries

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

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

(ii) Transactions eliminated on consolidation

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

(b) Financial instruments

(i) 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.

Trade receivables are financial assets with fixed or determinable payments that are solely payments of principal and interest. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, trade receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Loans and borrowings 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.

(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 weighted average cost method is used to measure cost of all inventories. 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 or assembly.

Finished goods consists of units that have been assembled or purchased and are held pending sale to customers.

(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 and 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. 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 the expected period of use, which is normally the lease term
Leased buildings	Straight line over the expected period of use, which is normally the 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

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.

Expenditure on research activities is expensed as incurred.

Development activities involve a plan or design for the production of new or substantially improved systems or solutions. Development expenditure is capitalized when development costs can be measured reliably, the product or process can be designed, constructed, operated, or carried out to accomplish its goals and objectives, using accepted engineering and other technical principles and concepts, where the development benefits are expressed as far as possible in monetary terms so that they can be compared on an equal level. A development activity is assessed as economically viable if the project benefits exceed the project costs 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) Leases

As described in note 3, the Company adopted IFRS 16 *Leases,* effective January 1, 2019.

(i) Recognition and measurement

The Company leases properties and office equipment. The Company recognizes right-of-use assets ("ROA") and lease liabilities at the commencement date of the lease (i.e., the date the underlying asset is available for use).

The ROA is initially measured at cost, which comprises the initial amount of the lease liability adjusted for lease payments made on or before the commencement date, initial direct costs and any lease incentives received.

At the commencement date of the lease, the Company also recognizes the associated lease liability, measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments less any lease incentives received. In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

After the commencement date, the amount of lease liability is increased to reflect the accretion of interest and reduced for the lease payments made. The lease liability is remeasured when there is change in future lease payments arising from a change in an index or rate, if there is a change in management's estimate of the amount expected to be payable under a residual value guarantee, if management changes its assessment of whether it will exercise a purchase, extension or termination option, or if there is a revised in-substance fixed lease payments.

(ii) Amortization

The ROA is depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the ROA and the end of the lease term. In addition, the ROA is reduced for any impairment losses.

(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.

(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) Business combinations

The Company accounts for business combinations using the acquisition method when control is obtained. 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.

(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, which is usually 5 years. Provision required for warranties is recognized at the later of the date the underlying products or services are shipped, or the effective date of the agreement granting the warranty. The provision is based on historical failure rates and repair costs.

(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

Revenue is assessed based on a model 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 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. The Company uses the practical expedient to recognize revenue at the amount to which it has a right to invoice, which corresponds directly to the value to the customer of the entity's performance completed to date.

(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.

(iii) Licensing
Control over modems and associated IP licenses is transferred upon shipment, at which point the revenue is recognized. Payment is typically due 30 days after shipment. Effective in 2019, this category also includes arrangements for exclusive access to weather data sets which is recognized over the relevant licensing period.

(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 Company uses the practical expedient to recognize revenue at the amount to which it has a right to invoice, which corresponds directly to the value to the customer of the entity's performance completed to date.

The undelivered amount of revenue related to contracted yet undelivered hardware and licenses for which a purchase order has been received is $3,117,405 CAD.

(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 and lease liabilities, and the unwinding of the discount on provisions, 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, categorized as finance income or costs.

(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.

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

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

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, 2019 $	December 31, 2018 $
Trade receivables	4,949,972	3,274,135
Non-trade receivables and accrued receivables	30,433	166,632
Total	**4,980,405**	**3,440,767**

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 26.

8. Inventory

	December 31, 2019 $	December 31, 2018 $
Raw materials	2,270,621	1,416,670
Work in progress	3,858	-
Finished goods	927,512	695,042
Balance	**3,201,991**	**2,111,712**
Less current portion	(1,672,068)	(1,066,946)
Non-current portion	1,529,923	1,044,766

In 2019 Raw materials and Finished goods recognized as cost of sales amounted to $8,883,834 (2018: $5,524,696). Included in this amount was a write down of inventories amounting to $88,814 (2018: $157,852) resulting from the 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

2019	Computers and Software $	Equipment $	Leasehold Improvements $	Leased Assets* $	Total $
Cost					
Balance at January 1	1,016,910	382,036	64,034	-	1,462,980
Adoption of IFRS 16	-	-	-	1,548,834	1,548,834
Additions	97,444	63,295	3,006	32,687	196,432
Disposals	(112,347)	-	-	-	(112,347)
Cumulative translation adjustment	(1,059)	(98)	179	(46,231)	(47,209)
Balance at December 31	1,000,948	445,233	67,219	1,535,290	3,048,690
Accumulated Depreciation					
Balance at January 1	702,819	247,079	32,812	-	982,710
Depreciation for the year	176,432	32,260	15,768	610,019	834,479
Disposals	(105,410)	-	-	-	(105,410)
Cumulative translation adjustment	(84)	(15)	(7)	(289)	(395)
Balance at December 31	773,757	279,324	48,573	609,730	1,711,384
Carrying Amounts					
At January 1	314,091	134,957	31,222	-	480,270
At December 31	**227,191**	**165,909**	**18,646**	**925,560**	**1,337,306**

2018	Computers and Software $	Equipment $	Leasehold Improvements $	Leased Assets* $	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**

*Adoption of IFRS 16 effective January 1, 2019 did not include restatement of 2018.

As of December 31, 2019, all property and equipment are pledged as security for the bank loan and the convertible debenture (note 14).

10. Intangible assets

The intangible assets 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 foresees 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, 2019 $	December 31, 2018 $
Trade payables	1,811,948	1,737,710
Compensation and statutory deductions	422,778	346,456
Accrued liabilities	111,834	258,588
Balance, December 31	**2,346,560**	**2,342,754**

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

12. Customer deposits

	December 31, 2019 $	December 31, 2018 $
Opening balance	661,833	1,687,971
Payments received	3,931,575	4,820,111
Recognized as revenue	(4,432,702)	(5,846,249)
Balance, December 31	**160,706**	**661,833**

13. Contract liabilities

	December 31, 2019 $	December 31, 2018 $
Opening balance	1,524,984	-
Payments received	3,116,935	2,621,106
Recognized in Other Income	(4,126,573)	(1,202,130)
Less subsidy receivable	-	106,008
Weather licensing	143,309	-
Balance, December 31	**658,655**	**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 was expected to receive a subsidy of $3.3 million USD. This subsidy was increased because FLYHT's income relating to the acquired assets fell short of 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 Loss, with the remaining amount representing the remaining subsidy to be recognized as income in Q1 2020.

The weather licensing contract liability relates to contract initiation and exclusivity fees, and reflects the timing difference between revenue recognition and contracted billing milestones.

14. Loans and borrowings

	2019 Face value $	2019 Carrying value $	2018 Face value $	2018 Carrying value $
SADI loan	1,370,247	1,340,262	1,507,481	1,252,743
WINN loan	2,513,782	2,003,235	2,137,202	1,569,663
Convertible debenture	1,940,374	1,535,438	2,480,000	1,727,773
Balance, December 31	**5,824,403**	**4,878,935**	**6,124,683**	**4,550,179**
Less current portion	720,769	718,015	137,233	129,465
Non-current portion	5,103,634	4,160,920	5,987,450	4,420,714

Bank loan

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.

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 was eligible to be received. The amount is repayable over five years commencing January 1, 2020. At December 31, 2019, the Company had received contributions totaling $2,350,000 (2018: 2,137,202).

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, 2019, the Company had received contributions totaling $163,782 under this loan (2018: nil).

Under SADI, the Company has recognized, at December 31, 2019, a liability of $1,340,262 (2018: $1,507,481). 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, 2019 and 2018 and changes during these years is presented below.

	2019 SADI $	**2019 WINN $**	**2019 Total**	**2018 SADI $**	**2018 WINN $**	**2018 Total**
Balance January 1	1,252,743	1,569,663	2,822,406	1,162,679	792,338	1,955,017
Contributions received	-	376,580	376,580	-	1,056,544	1,056,544
Grant portion	-	(114,605)	(114,605)	-	(391,697)	(391,697)
Interest accretion	224,753	171,597	396,350	209,397	112,478	321,875
Repayment	(137,234)	-	(137,234)	(119,333)	-	(119,333)
Balance December 31	**1,340,262**	**2,003,235**	**3,343,497**	**1,252,743**	**1,569,663**	**2,822,406**
Less current portion	151,750	439,899	591,649	129,465	-	129,465
Non-current portion	1,188,512	1,563,336	2,751,848	1,123,278	1,569,663	2,692,941

Convertible Debenture

The Company issued debentures with a face value of $ 2,000,000 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.

On issuance, the Company allocated $207,273 and $50,712 of the total proceeds to the conversion feature and the warrants respectively. Transaction costs of $84,376 were deducted from the $1,950,000 of proceeds attributed to the loan liability at initial recognition, resulting in a liability of $1,865,624 being recognized at issuance of the instrument. Transaction costs of $9,374 and $2,294 were deducted from the conversion feature and the warrants on initial recognition, resulting in $207,273 and $50,712 respectively being recognized in equity in relation to these features.

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.

	2019 $	2018 $
Balance January 1	1,727,773	-
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)
Interest payments	(133,949)	-
Conversions	(315,166)	-
Accrued interest	256,780	120,133
Carrying amount of liability at December 31	**1,535,438**	**1,727,773**
Less current portion	126,366	-
Non-current portion	1,409,072	1,727,773

15. Lease liability

	December 31, 2019 $
Opening balance (note 3)	1,548,834
Additions	32,687
Finance costs (note 24)	91,977
Lease payments	(544,583)
Cumulative translation adjustment	(46,231)
Balance, December 31	**1,082,684**
Less current portion	625,590
Non-current portion	457,094

16. Provisions

Product warranty	2019 $	2018 $
Balance January 1	43,701	91,713
Provision made during the period	4,705	12,050
Provision extinguished	(5,706)	(39,736)
Provision re-evaluation	38,455	2,314
Provision used during the period	(50,953)	(22,640)
Balance December 31	**30,202**	**43,701**

A provision for warranties is recognized when the underlying products or services are sold. The provision is based on historical warranty data. The 2018 provision extinguished was for a warranty claim from a partner that was withdrawn in 2018. The 2019 provision extinguished was the value of provision for warranties expiring throughout 2019.

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, 2018	21,058,617	58,409,225
Exercise of warrants	10,000	21,230
Balance December 31, 2018	21,068,617	58,430,455
Convertible debenture conversion	250,491	325,490
Issued in private placement	5,335,220	6,669,025
Share issue costs	-	(801,384)
Warrants issued	-	(1,115,506)
Balance December 31, 2019	**26,654,328**	**63,508,080**

In 2019 there were no share issuances resulting from the exercise of warrants nor options.

On November 15, 2019, the Company closed the first tranche of a private placement, issuing 4,792,400 units for gross proceeds of $5,990,500, with the second and final tranche, consisting of 542,820 units for gross proceeds of $678,525, closing on November 25, 2019. Each unit consisted of one common share and one-half of one share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share of the Company for a period of 24 months from the issuance of the units at a price of $1.75. Agents were paid a cash commission of 7% of the gross proceeds. A total of 335,468 agent warrants were also issued, each exercisable into one common share at $1.25 per unit within 24 months from the closing date. A corporate finance fee of $45,000 was also paid, together with 35,000 corporate finance warrants, each exercisable into one common share at a price of $1.25 for a period of 24 months. All common shares and warrants issued pursuant to the private placement were subject to a 4-month hold period.

Of the total proceeds received, $1,115,506 net of transaction costs of $160,970, was allocated to the warrants issued, with the remaining $5,553,519 net of transactions costs of $801,384, being allocated to the shares issued.

Stock option plan

The Company grants stock options to its directors, officers, employees and consultants. The following stock options were granted in 2019:

- 376,275 stock options to employees, officers and directors under the stock option plan with an exercise price of $1.50. The options will vest in equal tranches on May 9, 2020, 2021 and 2022 and will expire on May 9, 2023.
- 45,000 stock options to a consultant with an exercise price of $1.57. The options will vest in equal tranches on September 30, 2019, December 31, 2019, March 31, 2020 and June 30, 2020. These options are set to expire on August 1, 2022.

All outstanding options 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, 2019, there were 2,665,432 (2018: 2,106,862) common shares reserved for this purpose.

A summary of the Company's outstanding stock options as at December 31, 2019 and 2018 and changes during these years is presented below.

	2019		2018	
	Number of options	Weighted average exercise price $	Number of options	Weighted average exercise price $
Outstanding, January 1	1,065,845	1.86	983,498	2.16
Options granted	421,275	1.51	468,515	1.39
Options expired	(413,013)	1.92	(386,168)	2.01
Outstanding December 31	**1,074,107**	**1.70**	**1,065,845**	**1.86**
Unvested options	612,217	1.52	404,435	1.53
Outstanding and exercisable, December 31	**461,890**	**1.94**	**661,410**	**2.07**

The exercise prices for options outstanding at December 31, 2019 were as follows:

Exercise price:	All options Number	All options Weighted average remaining contractual life (years)	Exercisable options Number	Exercisable options Weighted average remaining contractual life (years)
$1.17	2,500	2.6	2,500	2.6
$1.33	30,000	1.4	30,000	1.4
$1.33	10,000	3.0	-	-
$1.50	353,550	4.0	-	-
$1.55	340,685	2.3	114,518	2.3
$1.57	45,000	2.6	22,500	2.6
$2.10	20,000	2.0	20,000	2.0
$2.20	272,372	1.0	272,372	1.0
Total	**1,074,107**	**2.5**	**461,890**	**1.5**

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 (2018: $0.45). The fair value of the options granted and valued using the Black-Scholes option pricing model were valued with the following weighted average assumptions:

	2019	2018
Risk-free interest rate	1.39%	1.91%
Expected life (years)	2.05	2.02
Volatility in the price of the Company's common shares	53%	52%
Dividend yield rate	0.00%	0.00%

Warrants

	Number of warrants	Weighted average exercise price $	Value $
Outstanding January 1, 2018	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**
Warrants issued (note 14)	2,667,610	1.75	1,115,506
Agent warrants issued	370,468	1.25	242,063
Warrants issue costs	-	-	(160,970)
Outstanding December 31, 2019	**3,807,278**	**1.64**	**1,247,311**

18. Earnings per share

Basic earnings per share

The calculation of basic and diluted earnings per share for the year ended December 31, 2019 was based on a weighted average number of common shares outstanding of 21,861,196 (basic and diluted) (2018: 21,058,736 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 reside in Canada, with the exception of property and equipment valued at $130,164, a leased building valued at $670,419, and non-current inventory valued at $581,884 located at FLYHT's offices in Littleton, CO.

	For the year ended December 31	
	2019	**2018**
	$	**$**
United States & Mexico	7,907,107	4,099,732
Asia	4,126,531	403,110
China	3,360,888	2,677,686
Middle East	1,999,975	1,794,439
Canada	1,612,114	1,922,368
Australasia	764,484	646,989
Africa	599,777	588,473
Europe	480,629	797,712
South/Central America	319,654	660,007
Total	**21,171,159**	**13,590,516**

The following shows revenue per major product and service categories.

	For the year ended December 31	
	2019	**2018**
	$	**$**
SaaS	10,246,685	5,528,822
Hardware	6,651,673	5,536,687
Licensing	3,241,285	2,265,262
Technical Services	1,031,516	259,745
Total	**21,171,159**	**13,590,516**

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 services offered by the Company, including repairs and other expertise. The Company has not disclosed transaction price allocated to remaining performance obligations for SaaS and Technical services, as revenue for these performance obligations is recognized using the practical expedient to recognize revenue at the amount to which the Company has a right to invoice.

Major customers

Revenues from the three largest customers represent approximately 46% of the Company's total revenues for the year ended December 31, 2019 (2018: 32%).

20. Other Income

	For the year ended December 31	
	2019	**2018**
	$	**$**
Bargain Purchase (note 29)	-	658,920
Subsidy recovery (note 13)	4,126,573	1,202,130
Total	**4,126,573**	**1,861,050**

21. Distribution expenses

	For the year ended December 31 2019 $	2018 $
Salaries and benefits	5,889,166	3,592,664
Stock based compensation	38,346	40,068
Contract labour	637,992	725,677
Office	223,896	402,191
Travel	566,700	647,515
Equipment & maintenance	59,132	190,470
Depreciation	527,994	37,641
Marketing	116,703	165,615
Other	235,840	191,395
Total	**8,295,769**	**5,993,236**

22. Administration expenses

	For the year ended December 31 2019 $	2018 $
Salaries and benefits	2,004,409	1,457,388
Stock based compensation	101,328	190,209
Contract labour	399,400	289,983
Office	475,049	376,094
Legal fees	39,700	195,143
Audit and accounting	293,823	197,852
Investor relations	210,772	149,071
Travel	225,769	120,297
Equipment and maintenance	213,973	166,179
Depreciation	181,564	80,381
Other	68,132	29,011
Total	**4,213,919**	**3,251,608**

23. Research, development and certification engineering expenses

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

	For the year ended December 31 2019 $	2018 $
Salaries and benefits	3,203,141	2,443,060
Stock based compensation	13,889	8,008
Contract labour	255,994	225,529
Office	144,770	79,263
Travel	103,357	75,196
Equipment and maintenance	13,297	69,733
Components	16,904	77,399
Depreciation	131,860	43,437
Government grants	(114,605)	(391,697)
Other	907	1,517
Total	**3,769,514**	**2,631,445**

24. Finance income and finance costs

	For the year ended December 31	
	2019	2018
	$	$
Interest income on bank deposits	29,810	16,628
Net foreign exchange gain	-	189,971
Finance income	**29,810**	**206,599**
Bank service charges	29,942	26,849
Net foreign exchange loss	172,495	-
Interest on lease liability (IFRS 16)	91,977	-
Other interest expense	3,073	2,719
Government grant interest accretion	396,351	321,875
Debenture interest expense and accretion	256,780	120,132
Finance costs	**950,618**	**471,575**

25. Income tax expense

Current Tax Expense

	2019	2018
	$	$
Current income tax (recovery) expense	-	(3,667)
Deferred income tax (recovery) expense	-	(243,980)
	-	**(247,647)**

Deferred Tax Expense

Unrecognized deferred tax assets

Deferred tax assets have not been recognized in respect to the following items:	2019	2018
	$	$
Capital assets	236,204	244,717
Intangibles	60,700	71,257
Reserves and FX	336,532	-
Non-capital loss carry-forwards	8,512,162	9,948,952
Share issue costs	15,874	37,269
Scientific research and experimental development expenditures	7,917,572	8,464,230
	17,079,044	**18,766,425**

The Company has non-capital losses for income tax purposes of approximately $37,009,398 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
	$
2027	5,255,607
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	1,924,860
Total	**37,009,398**

Reconciliation of effective tax rate	2019	2018
	$	$
Income (loss) before tax	(746,640)	(2,214,395)
Tax Rate	26.5%	27.0%
Expected income tax recovery	(197,860)	(597,887)
Bargain purchase tax impact	-	(177,908)
Change in rate	2,127,613	-
True up from prior year	(70,676)	(145,669)
Non-deductible expenses	16,649	16,077
Stock based compensation	40,694	64,337
Change in unrecognized temporary differences	(1,916,420)	593,403
	-	**(247,647)**

26. Financial risk management

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

Credit risk

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Management considers the demographics of the Company's customer base, including the default risk of the industry and country in which customers operate. Approximately 18% (2018: 16%) of the Company's 2019 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 reduce 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, 2019	**0-30 days**	**31-60 days**	**61-90 days**	**91+ days**	**Total**
	$	**$**	**$**	**$**	**$**
Accounts receivable	2,639,467	1,151,138	694,187	950,494	5,435,286
Impairment	(86,496)	(97,710)	(65,140)	(295,534)	(544,880)
Net receivable	**2,552,971**	**1,053,428**	**629,047**	**654,960**	**4,890,406**

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**

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, 2019 and 2018 was:

	2019 $	2018 $
Balance, January 1	296,143	156,249
Provision	307,592	139,894
Recovered	(58,472)	-
Amounts written off	(383)	-
Balance, December 31	**544,880**	**296,143**

The recoverability of the Company's receivables at year-end is likely to be impacted by the consequences of the COVID-19 virus on the global airline industry. As at April 8, 2020 $3,996,658 of the balances outstanding at December 31, 2019 had been collected. While no amounts had been written off, the allowance for impairment for the remaining balance was increased by $33,017 to $577,897.

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, 2019	**< 2 months** **$**	**2-12 months** **$**	**1-2 years** **$**	**2-5 years** **$**	**> 5 years** **$**	**Total** **$**
Accounts payable	1,800,915	11,033	-	-	-	1,811,948
Compensation and statutory deductions	59,429	363,349	-	-	-	422,778
Accrued liabilities	33,076	78,758	-	-	-	111,834
Lease payments	154,930	470,660	426,569	114,596	-	1,166,755
Loans and borrowings	117,000	603,769	2,593,969	2,203,494	1,585,047	7,103,279
Total	**2,165,350**	**1,527,569**	**3,020,538**	**2,318,090**	**1,585,047**	**10,616,594**

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**

Refer to note 2(d) and note 30 for additional details relating to the effects of COVID-19.

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 $211,135 (2018: $147,252) and a strengthening of the Canadian dollar would decrease net earnings by approximately $211,135 (2018: $147,252).

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, 2019, working capital denominated in U.S. dollars was approximately positive $3,587,151 (2018: positive $2,474,528). As a result, a 1% weakening of the Canadian dollar would increase net earnings by approximately $35,872 (2018: $24,745) and a strengthening of the Canadian dollar would decrease net earnings by approximately $35,872 (2018: $24,745).

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, 2019 and 2018 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.

27. Related parties

A company controlled by a director of FLYHT 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	
	2019	**2018**
Amounts included in:	**$**	**$**
Contract labour	-	12,900

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:

	2019	2018
	$	$
Salary	1,150,794	1,158,088
Director fees	220,277	207,505
Variable compensation	287,467	295,000
Retiring allowance	41,079	-
Share-based payments	83,857	54,385
Short-term employee benefits	74,946	58,866
Total	**1,858,420**	**1,773,844**

Directors of the Company control 3.0% (2018: 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%

28. Contractual Arrangement

Certain of the Company's sales contracts require that, in the event the Chinese government restricts use of the Iridium satellite constellation, the Company may be required to repurchase, at discounted rates, certain AFIRS units. The Chinese government has continued with a process of issuing waivers for the use of the Iridium frequency to aircraft needed for usage in China. This is the same process that they have used for many years, but have now gone to issuing three-year grants to Iridium Communications Inc. versus a yearly grant that they had in the past. Given the prevalent use of Iridium services in China and the extensions of waivers reported by Iridium Communications, the likelihood of a liability under these contracts is considered to be remote.

29. 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 are working closely together to complete several ongoing deployment programs, while PAC is also providing warranty services and a level of customer support. This transition period was designed to give FLYHT time to integrate business and operational functions. In addition, to keep the asset acquisition cash-flow neutral to FLYHT during this period, it was agreed the Company would receive a subsidy of US$3.3 million. The total subsidy would be increased or reduced if the income relating to the acquired contracts falls short of or exceeded certain agreed upon thresholds. Pursuant to the terms of the acquisition of PWS assets and the transition agreement, FLYHT paid no monetary consideration to PAC for the PWS assets, accordingly no fair value was assessed for the intangible assets, per IFRS 3 (Business Combinations). In 2018 the Company incurred acquisition-related costs of $170,403 in due diligence and legal fees. These costs were included in Administrative Expenses (note 24).

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.

30. Subsequent event

While most industries have felt the effects of COVID-19 over the past few months, the pandemic has substantially impacted commercial aviation. From early January 2020 through the end of March 2020, daily departures from major airports have declined significantly. International travel has been severely curtailed, and airlines are taking extraordinary measures to preserve cash. Industry layoffs and furloughs have been accelerating, accounts payable have been pushed out, and capital equipment orders have been delayed or restructured.

Due to the equity raise in November 2019, which improved the Company's working capital, and the operational progress made throughout 2019, the Company entered 2020 with a relatively robust cash position. However, the Company anticipates reduced revenues in the near-term due to customers rescheduling orders and decreases in air traffic, which will impact the Company's corresponding SaaS revenues. The Company expects to continue receiving uninterrupted revenues from other sources during this challenging period. Additionally, the Company is discussing with customers the possibility of accelerating installations on aircraft that have been or will be grounded.

To preserve the Company's liquidity through this period of commercial aviation uncertainty, the following measures have been undertaken:

- Instituting a company-wide travel ban to protect employees and reduce associated costs
- Postponing new hires (with minimal exceptions)
- Initiating other internal cost cutting measures
- Pursuing small business disaster loan assistance in the United States
- Pursuing business credit programs through Export Development Canada (EDC) and/or the Business Development Bank of Canada (BDC)
- Pursuing work-share programs from the government of Canada and the state of Colorado, and
- Engaging suppliers for extended payment terms

The Company will continue to monitor the industry conditions and implement these measures, as well as consider additional cash saving efforts, as the current situation dictates.

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Shares are traded on the TSX Venture Exchange and the OTCQX Marketplace
Ticker Symbols: TSX: FLY and OTCQX: FLYLF

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

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