

2020

ANNUAL REPORT

FLYHT AEROSPACE SOLUTIONS LTD.



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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
CARES:	The Coronavirus Aid, Relief, and Economic Security Act
CEWS:	Canadian Emergency Wage Subsidy
CPDLC	Controller Pilot Data Link Communications
DAO:	Design Approval Organization
DGAC:	Dirección General de Aeronáutica 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
PPP:	Paycheck Protection Program
PWS:	Panasonic Weather Solutions
R&D:	Research and Development
SaaS:	Software as a Service
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



I do not think anyone in the world minded seeing 2020 come to a close. It was a difficult year for so many, including the aviation industry and FLYHT. In a recent note to customers, Delta's CEO Ed Bastian said, "We're hopeful for an inflection point in the spring where the virus will be more contained, leading to the reopening of international borders and increased confidence in public life." While we at FLYHT share Ed Bastian's cautious optimism, we know that hope is not a strategy, so we have taken direct measures to ensure that we not only survive the pandemic intact, but that we emerge on the other side in a strong position to return to growth and value creation. We are hard at work to turn our hope for a better future into reality.

Throughout the pandemic, we have remained disciplined managers and stewards of your capital, all while continuing to advance our strategy. We have conserved cash, scrutinized expenses very carefully and aligned our resources with the products and services that will be most useful for our customers to recover from this global economic disaster. Our efforts have enabled FLYHT to finish 2020 with more cash than we started with, a roster of new and reborn clients that are very glad to work with us to assist them in their recovery efforts, a revitalized team focused on those efforts, and support from our board and shareholders to provide the right tools to our industry in its time of need. We have deployed our existing tools in new and imaginative ways, have attracted launch customers for Actionable Intelligence helping define the high value services we can add, and with the support of the Canadian and U.S. governments, kept our core competency of staff engaged and productive while keeping them safe from COVID by strict compliance with health authority recommendations.

While our revenues and earnings were down in 2020, the moral and enthusiasm of our staff to help our customers remains unwavering. We have already had one customer re-emerge from receivership and re-signed for services from us. We have additional customers that are in the process and we believe we will end the pandemic with more customers that we started with, which is a very promising thing for us and our shareholders.

One of the trends we notice is that "aviation" is a very broad description of the industry we serve. China is on its way to recovering fully, while Malaysia, a mere two-hour flight away, has been locked down for months, international borders remain closed and no reopening date announced. Our cargo carriers, remote operators in Northern Canada and Africa, and our eastern European operators are running at nearly 2019 levels, while our sun destination, vacation carriers are slowed to a near stop. We are fortunate to have a diverse client base and with 30 new ultra low-cost carriers being announced globally since the pandemic began, are confident that there are lots of new opportunities coming our way in 2021 and beyond.

We have an expanded suite of new tools and products ready to go to market starting in Q2 of this year, with launch customers announced. We are working to quantify the savings we can bring to help everyone recover as quickly as possible once the vaccines are administered, borders are opened, people can get out of the house and see families, go on vacations, or resume business travel.

We are working on new low-cost hardware to drive our Actionable Intelligence initiatives and developing state-of-the-art solutions for our SaaS business. We are also having clients drive our initiatives to ensure we are working on what the industry needs, and management feels very positive about the possibility of growing our skill sets and geographical representation with acquisitions and mergers that will broaden our service offering and strengthen our ability to provide unique solutions to our customers.

Provided the anticipated vaccination programs around the world occur as planned and there is some level of support for airlines, we are optimistic that the pent-up demand for travel globally will drive a resurgence for our customers. FLYHT is focused on being part of that recovery. We have a great set of launch customers for our Actionable Intelligence tools and are looking to implement those tools across our existing base of over 80 customers as well as to new customers this year and for a long time to come.

FLYHT has been through many cycles in the industry and is here for the long term with new and innovative solutions, strong staff and clear focus on how to help our industry get back on its feet.

We thank our shareholders, staff, board, and customers for helping us come through 2020 in a strong position to deliver quality results going forward. As always, we are happy to talk to any of you at any time.

Yours Truly

A blue ink handwritten signature of William T. Tempany.

William T. Tempany
Interim Chief Executive Officer

MANAGEMENT DISCUSSION & ANALYSIS

This management discussion and analysis (“MD&A”) is as of April 7, 2021 and should be read in conjunction with the audited annual consolidated financial statements of FLYHT Aerospace Solutions Ltd. (“” or the “Company”) as at and for the years ended December 31, 2020 and 2019 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, 2020 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 provides airlines with Actionable Intelligence to transform operational insight into immediate, quantifiable action, delivering industry leading solutions to improve aviation safety, efficiency and profitability. This unique capability is driven by FLYHT's patented aircraft certified hardware products including AFIRS™, a satcom aircraft interface device which enables real-time streaming of flight information, cockpit voice and black box data streaming and TAMDAR™, 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's hardware products, software applications and communication systems are designed to work seamlessly to provide excellent value to our customers by having customizable access to real-time data from the aircraft, integrated with the information from systems operated by the airline, airport, service providers or others that can impact the operation of the aircraft. FLYHT has returned to its roots as a Software as a Service ("SaaS") provider with the benefit of having access to data that no other company has. The combination of airborne hardware and software is a powerful driver for Actionable Intelligence.

1. Airborne Hardware

AFIRS™

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 transmits this information in real-time 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 many value-added solutions including tracking aircraft, fuel management and monitoring aircraft health as well as weather observations that include humidity data. FLYHT's global satellite coverage is enabled by the Iridium satellite network, providing service to our customers anywhere on the planet. AFIRS has been tested with several other satellite systems successfully including streaming both Black Box voice and data transmission in real time.

Additionally, AFIRS is unsurpassed when it comes to automating the collection and dissemination of block and flight times. Accurate Out-Of-On-In (OOOI) times translate directly into optimal crew utilization ensuring flight crews do not 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. This accurate tracking is being transformed into actionable intelligence with ground handling personnel to improve turn times and delay avoidance in schedule disruption.

FLYHT received regulatory certification for installation of AFIRS on most 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. Our inhouse certification group allows us to add new data sources very easily to the reporting capabilities of AFIRS.

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 a more efficient route structure, reduced flight times, reduced fuel burns, and enhanced communications between Air Traffic Control (ATC) and the aircraft.

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 provides real-time, high-quality atmospheric data collected from 200+ aircraft in North America, Asia, and Europe through frequent soundings (thousands per day except during COVID lockdowns) and continuous observations including all of the metrics of Radiosonde observations plus icing and turbulence.

Like the data traditionally gathered by weather balloons worldwide, the 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. A recent NOAA article shows the importance of this specialized data.



Conclusions

- Aircraft obs remain the **most important** obs type for rapidly-updating short-range regional NWP models. (2020 paper update from 2017 paper)
- Impacts likely underestimated in this retrospective study due to unreduced aircraft ob assimilation in GFS (through lateral boundary conditions and via partial cycling).
- COVID-19: Realtime NWP impacts are challenging to detect, but controlled experiments reveal statistically significant increased 6-12h forecast error over US in RAP model from reduced aircraft reports.
- Averaged across summer and winter seasons, and across tropospheric temperature, winds, and RH, **excluding 80% of aircraft obs** leads to a **12%** short-range forecast degradation, compared with **30%** degradation when **all aircraft obs** are denied.
- **Published articles:**
 - Overall obs impact assessment with RAPv3: <https://doi.org/10.1175/MWR-D-16-0398.1>
 - Aircraft-specific experiments and COVID-19: <https://doi.org/10.1175/JAMC-D-20-0010.1>

The relative humidity data, gathered throughout an aircraft's flight, makes these weather soundings particularly valuable to meteorologists.

2. Supporting Applications

FLYHT sells innovative technology solutions which use the data collected by 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 alerts and real-time status updates all within 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 other FLYHT products with flight tracking, and Out-Of-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.

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. UpTime has many operational components which aid in aircraft operations, maintenance, and ground operations as well as flight planning and scheduling.

UpTime 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 actually 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.

Actionable Intelligence

The unique combination of these tools allows FLYHT to deliver an incredibly valuable entrance into the world of artificial intelligence through the deployment of our Actionable Intelligence platform. FLYHT's Actionable Intelligence provides insight into our partners' total operations to find areas for improvement. That insight triggers actions based upon rules or previous observations to direct corrective action in near real time. These steps allow the airline to control profitability of their operations, improving customer satisfaction with better on time performance and allows for empowered employees who solve problems on the spot. Airlines need to align the passenger experience, airline operations and positive working environment for enhanced profit opportunity with a seamless technology partnership.

FLYHT's Actionable Intelligence takes advantage of health monitoring solutions and consists of three different but related functions: automated engine trend reporting, real-time engine and airframe exceedance monitoring, and remote real-time diagnostics to provide instruction to personnel that will improve profitability by reducing communications and remediation actions.

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, these tools also enable proactive management of maintenance and reduces aircraft "turn-times" and downtimes, and subsequently also the operational and financial impact of unscheduled maintenance.

Logging 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. The addition of messaging between the aircraft and the ground crews will reduce turn times and therefore enhance profitability for our customers.

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, customers are able to remotely configure their software directly from their custom-configured, ground user interface.

Actionable Intelligence includes 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.

The system 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, 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 privacy regulations.

3. Communications

FLYHT 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. Our latest axillary hardware tools provide both power and connectivity to the devices used by the pilots to create a safe reliable platform for EFBs.

Our voice 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, this 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. This function 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).

Weather Observations

Weather Observations is a solution that leverages FLYHT's 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 provides a visualization of flight information along with weather data and overlays. As well, the interface provides 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, FLYHT employs the services of delegated engineers, allowing for the approval of changes to the structural or 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 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
P										Airbus A330
	A		A						A	ATR42 -300
	A									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	I	A		A		A				Boeing B737 -600
A	A	A	A	A	A	A	A		A	Boeing B737 -700, -800
			A							Boeing B737 -900ER
	A									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		A							Bombardier DHC 8 -400
A	A	A	A	A	A		A			Bombardier CRJ 100, 200, 440
	A		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). AFIRS 228 applications are also in progress with the Federal Air Transport Agency of Russia for the Boeing 737, 757 and 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*
		A*											
A*	A*			A*	A*	A*	A*						
A*	A*	A*	A*										
A													
A								A					
A								A					
		A*											
A													
A													
A	A												

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. There has been substantial change in industry conditions as a result of 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 experience financial stress, so do suppliers to that industry, such as FLYHT. For virtually all airlines, cash flow is drastically reduced, and this may impact the airline industry's ability to pay for services and capital expansion, which may cause a decrease in spending in these areas. Still relevant for 2021, in May 2020 ANNA.aero reported on a global survey authored by Fast Futures, which found that over the next two years:

- 68.4% of respondents expect investment in digital transformation to increase
- 60.3% expect investment in automation and the deployment of artificial intelligence (AI) technology to rise
- 54.2% expect spending to increase on sustainability and environmental initiatives
- 53.5% expect investment in innovation to increase
- 48.5% expect to see an upturn in customer experience and service spending, with less than a quarter (22.9%) expecting investment in this area to fall
- At the other end of the scale, 75.5% of survey respondents expect investment in aircraft orders to decrease over the next two years, while 55.3% expect to see
- a decrease in terminal design and construction spend
- Recovery will take two to three years

The Aviation Industry Q1 2021

International Air Transport Association's (IATA) industry results, measured in Revenue Passenger Kilometres (RPK) and Cargo Tonne Kilometers (CTKs) are the passenger and freight contributions to airline revenue and are significant markers to determine the health of the industry.

Air travel (measured by RPKs) fell again in early 2021 from levels in December 2020, with January 2021 being 72% lower than in the pre-crisis month of January 2020. This setback for the airlines' passenger business was driven by a tightening by governments of travel restrictions across the world, following the emergence of COVID-19 variants. Most important were restrictions imposed on domestic travel in China. A sharp decline in travel on China's domestic market accounted for most of the early 2021 decline in global travel.

The continued weakness of air travel is in marked contrast to the optimism shown outside the aviation sector in stock market prices and in business confidence surveys. This adds to the evidence that there is substantial pent-up demand to fly. Government travel restrictions continues to be the main constraint. The global air travel market deteriorated further in February 2021, as Chinese New Year travel was weaker than usual, and travel restrictions tightened further in several countries. At the end of September 2020, IATA had reported that Chinese domestic travel had come back to 2019 levels, however, second wave issues obviously affected that recovery. Some rebound looks likely in the second quarter but Q1 2021, and probably Q2 2021, will be weaker than expected for the air passenger business.

The air cargo business, in marked contrast to the state of the air passenger business, is flourishing. Volumes (measured by cargo tonne km flown) regained pre-crisis levels in January 2021, with CTKs 1.1% higher than January 2020. Revenues are stronger, as yields remain elevated due to the lack of capacity from the wide body passenger aircraft fleet. Strong cargo revenues are making a difference for some airlines and some long-haul routes (where high yielding cargo can make up for the loss of high yielding business passengers). But before the crisis cargo revenues were only 12% of total revenues, so this is not a large enough business to offset the massive and continuing loss of passenger revenues.

Defense & Security Monitor reported results from large commercial aircraft manufacturers demonstrate the fallout from COVID-19 Boeing and Airbus delivered 39 and 89 commercial jets in December 2020, compared to 35 and 138 deliveries, respectively, in December 2019. For the full year 2020, Boeing delivered 157 aircraft, compared to 380 and 806 in 2019 and 2018, respectively. In 2020, Airbus delivered 566 aircraft and won the deliveries crown for the second year in a row. Airbus deliveries were down from 863 and 800 in 2019 and 2018, respectively.

Avweb reported aircraft manufacturer Embraer announced that it delivered a total of 130 aircraft in 2020, a drop of almost 35% compared to 2019. Of the 44 commercial aircraft and 86 executive jets shipped by Embraer this year, 71 were handed over in the fourth quarter of 2020. These Q4 2020 deliveries, which were 10 aircraft under the same time period in 2019, included 28 commercial aircraft and 43 executive jets.

Bombardier and De Havilland deliveries have significantly reduced over the past year. Bombardier's reduction is a result of the disposal of the CRJ program to Mitsubishi Heavy Industries (MHI), who have in turn ended CRJ production as of December 31, 2020 to focus on their own regional jet model, the MRJ. De Havilland's anticipated reduction in deliveries for 2021 is the result of a pause in production while they relocate to a new manufacturing facility, due to low current aircraft demand and that the Downsview location lease is set to expire in 2021.

FLYHT's Market

FLYHT's core technology, which leverages 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.

In 2020, FLYHT launched our most advanced SaaS software to date, "Actionable Intelligence". Actionable Intelligence is a sophisticated toolset allowing us to deliver an incredibly valuable entrance into the world of artificial intelligence. FLYHT's Actionable Intelligence provides insight into our customers' total operations to identify areas for improvement. That insight triggers actions based upon rules or previous observations to direct corrective action in near real time. These steps allow the airline to control profitability of their operations, improving customer satisfaction with better on time performance and allows for empowered employees who solve problems on the spot. Airlines need to align the passenger experience, airline operations and positive working environment for enhanced profit opportunity with a seamless technology partnership.

FLYHT is 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 continues to make 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 FLYHTMap solution from PWS which is a situational tracking solution that provides real-time visualizations of fleet status. FLYHTMap 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 gained strength relative to the U.S. dollar throughout 2020⁽⁸⁾ and the Company experienced a resulting negative impact to net income compared to 2019. As a result of these currency movements, the Company's revenues, which are substantially all denominated in U.S. dollars, were lower than they would have been had the foreign exchange rates not changed throughout 2020. 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.

Environmental, Social and Corporate Governance

Sustainability has been integral to FLYHT's operations for many years. Early initiatives had FLYHT playing a key role in the effort to achieve a paperless cockpit, reducing waste and improving operational efficiency. More recently, FLYHT has been working to improve fuel conservation and reduce emissions by ensuring proper aircraft maintenance and trim. Engine performance monitoring helps further improve engine efficiency for our customers. The development and deployment of tools that help FLYHT and its customers serve as industry leaders in the responsible use of resources is a critical component of our drive toward sustainable growth and profitability. FLYHT's corporate policies are dedicated to achieving a paperless operation, improving efficiency in our use of resources and staying abreast of the UN's Sustainable Development Goals.

FLYHT is committed to diversity, providing an open multicultural friendly workplace that recruits and rewards people based upon skill and most recently focusing on improving our gender mix. Providing an equal opportunity workplace where everyone contributes to the corporate goal of helping the industry FLYHT serves be as efficient as possible is at the core of FLYHT's purpose.

FLYHT is fully committed to do what it takes to succeed in this area and has developed specific goals and action plans that reflect this responsibility.

2020 Contracts, Achievements and Activities

Contracts

FLYHT received USD\$7.9 million in new sales contracts and purchase orders related to 2020 and future years. These contract figures assume that the Company provides services over the full term of these contracts. FLYHT has not identified any impediments to the fulfillment of these contracts as a result of any subsequent events after these disclosures. These contracts and purchase orders included:

Fourth Quarter

- A purchase order from an international aircraft manufacturer to provide software improvements, ensuring continued future delivery of licensing revenue
- An additional order of AFIRS hardware for delivery in Q4 2020 from Integrated Procurement Technologies
- The return of Corvus Airlines following Chapter 11, with full services resumed on their DHC-8 fleet
- A further one-year contract extension with Environment and Climate Change Canada for the delivery of AMDAR data

Third Quarter

- An order from China Express to factory install AFIRS on 20 ARJ 21 aircraft, in tandem with the announcement of China Express as a launch partner for FLYHT's Actionable Intelligence solution
- A purchase order for Q3 2020 certification engineering support

Second Quarter

- A trial agreement with a meteorological agency for the delivery of TAMDAR data
- A five year contract to provide FLYHTLog to a new customer on an aircraft acquired with AFIRS installed
- Five AFIRS 228S installation kits to an existing Chinese airline customer to support their expanding fleet

First Quarter

- A one-year contract extension with Environment and Climate Change Canada for the delivery of Aircraft Meteorological Data Relay (AMDAR) data
- Two AFIRS 228S kits to an existing Chinese airline customer
- An existing partner leased an AFIRS 228B equipped aircraft to an African operator who activated data services on a five-year contract
- Three AFIRS 228B kits to a new aircraft leasing customer
- One AFIRS 228S kit to a European operator to implement Future Air Navigation System (FANS) safety services voice and data
- One AFIRS 228B kit to an existing African operator customer
- A US \$2.43 million purchase order for Iridium modems and license fees from a long-time OEM customer

Achievements & Activities

Fourth Quarter

- FLYHT shipped 24 kits in Q4 2020 and finished the year with higher cash reserves than the year prior (see *Liquidity and Capital Resource* Section)
- Appointed Derek Graham VP of Business Development and Darrel Deane as VP Solutions

Third Quarter

- Amended the July 2018 warrants, extending the expiry date to December 24, 2020 and amending the exercise price to \$0.60
- FLYHT retained FNK IR LLC for investor relations and capital markets communications services
- The Company developed and began delivering phase one of the Actionable Intelligence suite of SaaS applications

Second Quarter

- Barry Eccleston named Executive Chairman of the Company's board of directors; Bill Tempany named interim CEO
- Incentive stock options for an aggregate 755,300 common shares were granted, to employees, officers and directors under the stock option plan approved at the Annual and Special meeting held on June 23, 2020
- Received funds under two programs designed to support Canadian and American small businesses during COVID-19
- Commencement of training on Agile development methodology for all staff to be completed by August of 2020
- First proposals for Actionable Intelligence delivered to three prospective customers

First Quarter

- Expanded its STC portfolio, by transferring an FAA STC from our third-party certification partner, and also by successfully adding the A320Neo "NX" models to an existing EASA STC
- Reported sales order backlog of approximately \$52 million
- Promoted seasoned aviation executive Derek Taylor to Vice President, Sales and Marketing
- Provided worldwide meteorological organizations a temporary, free license to utilize TAMDAR weather data sets to help offset the recent decrease in accessible data due to COVID-19
- FLYHT shared its preliminary strategic response to the COVID-19 pandemic and its negative impact on commercial aviation

Results of Operations

Selected Results

	Q4 2020 \$	Q3 2020 \$	Q2 2020 \$	Q1 2020 \$
Assets	13,736,235	15,698,866	17,266,441	18,513,259
Non-current financial liabilities	5,169,462	7,001,557	7,376,115	7,073,883
Revenue	3,379,186	1,918,410	3,060,157	5,295,232
Cost of sales	1,486,063	590,375	993,846	1,325,602
Gross margin	1,893,123	1,328,035	2,066,311	3,969,630
Gross margin %	56.0%	69.2%	67.5%	75.0%
Distribution expenses	1,529,436	589,830	1,163,957	2,108,641
Administration expenses	1,240,943	1,030,074	686,489	1,099,130
Research, development and certification engineering expenses	956,556	1,012,543	440,818	928,325
Results from operating activities	(1,833,812)	(1,304,412)	(224,953)	(166,466)
Depreciation	176,702	224,539	199,673	267,404
Other income	-	-	178,412	628,500
EBITDA*	(1,657,110)	(1,079,873)	153,132	729,438
Income (loss)	(1,999,715)	(1,647,249)	(276,515)	686,022
Income (loss) per share (basic)	(0.08)	(0.06)	(0.01)	0.03
Income (loss) per share (diluted)	(0.08)	(0.06)	(0.01)	0.03
	Q4 2019 \$	Q3 2019 \$	Q2 2019 \$	Q1 2019 \$
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 (diluted)	(0.06)	(0.04)	0.05	0.01

*See Non-GAAP Financial Measures

Weighted Average Shares Outstanding

	2020 \$	2019 \$	2018 \$
Basic	26,677,439	21,861,196	21,058,855
Diluted	28,457,009	22,028,060	21,132,875

Financial Position

Liquidity and Capital Resource

The Company's cash and cash equivalents at December 31, 2020 increased to \$5,127,963 from \$4,127,648 at December 31, 2019. 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, 2020.

The Company funded Q4 2020 operations primarily through the proceeds from cash received from sales, the November 2019 private placement, funding obtained from the Canadian Emergency Wage Subsidy and United States Paycheck Protection Program governmental programs, and contributions from the Western Innovation Initiative (WINN). The Company will strive to self-fund operations through the remainder of 2021.

	December 31, 2020	December 31, 2019	Variance
	\$	\$	\$
Cash and cash equivalents	5,127,963	4,127,648	1,000,315
Trade and other receivables	1,587,275	4,980,405	(3,393,130)
Contract assets	187,892	256,125	(68,233)
Deposits and prepaid expenses	544,052	797,759	(253,707)
Inventory	1,561,959	1,672,068	(110,109)
Trade payables and accrued liabilities	(2,128,941)	(2,346,560)	217,619
Customer deposits	(492,679)	(160,706)	(331,973)
Contract liabilities	-	(658,655)	658,655
Loans and borrowings	(2,376,594)	(718,015)	(1,658,579)
Lease liability	(679,816)	(625,590)	(54,226)
Working capital*	3,331,111	7,324,479	(3,993,368)

*See Non-GAAP Financial Measures

In 2020 warrant exercises resulted in the Company issuing 624,696 shares for total proceeds of \$382,552. No options were exercised nor were any debentures converted in 2020.

As at April 7, 2021 FLYHT's issued and outstanding share capital was 27,279,024.

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.

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. Although the Company's results showed losses from operating activities in both 2020 and 2019, cash flow from operations in 2020 was positive. At December 31, 2020, the Company had positive working capital of \$3.3 million compared to positive \$7.3 million as of December 31, 2019, a decrease of \$4.0 million. The Company ended 2020 with balances of \$5.1 million in cash and cash equivalents, an undrawn credit facility of \$1.5 million, and \$2.0 million in contributions under WINN loans not yet received.

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, particularly the presentation of Actionable Intelligence tools to our customer and prospects, which are expected to result in additional contracts for delivery of hardware units and related services. The intention is to provide profit enhancement opportunities to our customers and prospects without requisite capital expenditures by them and thereby get back to our core benefit to our shareholders of high value SaaS revenue growth.

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 negative impact to the commercial air industry resulting from the COVID-19 pandemic is unprecedented. Since early 2020 FLYHT has been seeing near term implications of the pandemic in all aspects of revenue and trade receivable payments due to the impact of the pandemic on our customers. In Q3 2020 FLYHT began to see some recovery in our customers, with aircraft re-commencing operations as well as receivable payments being made. In Q4 2020 some of that recovery was lost to the second wave of the pandemic impacting several parts of the world. There is continued risk until such a time as the industry recovers. There exists a possibility that an extended industry recovery could cause FLYHT 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 and, in the limit, become illiquid.

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. This facility was undrawn as at December 31, 2020.

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.

The recoverability of the Company's receivables has been impacted by the consequences of the COVID-19 virus on the global airline industry. As at April 7, 2021 \$1,269,428 of the balances outstanding at December 31, 2020 had been collected.

Contractual Obligations

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

December 31, 2020	< 2 months	2-12 months	1-2 years	2-5 years	> 5 years	Total
	\$	\$	\$	\$	\$	\$
Accounts payable	1,120,306	-	-	-	-	1,120,306
Compensation and statutory deductions	491,401	429,293	-	-	-	920,694
Accrued liabilities	87,941	-	-	-	-	87,941
Lease payments	199,546	480,269	370,591	820,825	1,511,590	3,382,821
Loans and borrowings	235,820	2,334,476	1,201,697	2,119,770	1,585,051	7,476,814
Total	2,135,014	3,244,038	1,572,288	2,940,595	3,096,641	12,988,576

Under the Strategic Aerospace and Defence Initiative (SADI), the Company has an outstanding repayable balance of \$1,370,247 at December 31, 2020. 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 January 31, 2029 (adjusted from April 30, 2028 in response to the COVID-19 pandemic) when the final payment will be 24.5% of the total contribution received. There was no repayment made in 2020 (2019: \$137,234), as loan payment schedules were extended by the Canadian government throughout 2020 and into 2021.

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 received. The amount is repayable over five years commencing January 1, 2020. Amendments in 2020 have adjusted the payment dates due to COVID-19, so that there are no payments scheduled from April – December 2020 and the final payment date has been pushed back to September 2025. Repayments in 2020 totaled \$117,000 (2019: nil).

In November 2018, the Company signed a second contribution agreement with Western Economic Diversification Canada for a 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, 2020, the Company had received contributions totaling \$788,262 (December 31, 2019: \$163,782).

A summary of the carrying value of the SADI and WINN loans as at December 31, 2020 and 2019 and changes during these periods is presented below.

	2020 \$			2019 \$		
	SADI	WINN	Total	SADI	WINN	Total
Balance January 1	1,340,262	2,003,235	3,343,497	1,252,743	1,569,663	2,822,406
Received	-	624,480	624,480	-	376,580	376,580
Grant portion	-	(119,047)	(119,047)	-	(114,605)	(114,605)
Interest accretion	201,551	218,871	420,422	224,753	171,597	396,350
Gain on loan modification	(279,723)	(139,959)	(419,682)	-	-	-
Repayment	-	(117,000)	(117,000)	(137,234)	-	(137,234)
Balance December 31	1,262,090	2,470,580	3,732,670	1,340,262	2,003,235	3,343,497
Less current portion	156,258	564,276	720,534	151,750	439,899	591,649
Non-current portion	1,105,832	1,906,304	3,012,136	1,188,512	1,563,336	2,751,848

Convertible Debenture

FLYHT issued an aggregate \$2,000,000 of convertible debentures ("Debentures") on July 24, 2018. The Debentures will mature on July 24, 2021 if not converted prior to expiry, and bear interest at a rate of 8% per annum, which is accrued and paid annually in arrears. At the time of issue, the Debentures were 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). The original agreement allowed for each whole Warrant to be exercised 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 were 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 was equal to or exceeded \$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 would accelerate to the date which was 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.

In July 2020 the Company amended the exercise price of the Warrants to \$0.60 and extended the term of the Warrants to December 24, 2020, subject to 30-day acceleration if, for any ten consecutive trading days during the unexpired term of such Warrants, the closing price of the Company's Shares was greater than \$0.72.

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, 2020 and changes during the year is presented below.

	2020 \$	2019 \$
Balance January 1	1,535,438	1,727,773
Interest payments	(133,949)	(133,949)
Conversions	-	(315,166)
Accrued interest	254,571	256,780
Balance December 31	1,656,060	1,535,438

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, 2020 and 2019. Payments were received for 25 installation kits in the fourth quarter of 2020. For the year ended December 31, 2020, payment has been received for 44 installation kits compared to 91 in 2019.

	Q4 2020 \$	Q4 2019 \$	Variance \$	YTD 2020 \$	YTD 2019 \$	Variance \$
Opening balance	421,865	215,611	206,254	160,706	661,833	(501,127)
Payments received	1,301,877	568,212	733,665	3,410,369	3,931,575	(521,206)
Recognized as revenue	(1,231,063)	(623,117)	(607,946)	(3,078,396)	(4,432,702)	1,354,306
Balance, December 31	492,679	160,706	331,973	492,679	160,706	331,973

Comprehensive Loss

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. **Technical Services** includes all services offered by the Company, including repairs and other expertise.

Revenue sources

	Q4 2020 \$	Q4 2019 \$	Variance \$	YTD 2020 \$	YTD 2019 \$	Variance \$
SaaS	1,627,421	2,711,228	(1,083,807)	7,323,125	10,246,685	(2,923,560)
Hardware	1,490,709	657,577	833,132	2,306,371	6,651,673	(4,345,302)
Licensing	48,068	772,466	(724,398)	3,630,874	3,241,285	389,589
Technical Services	212,988	140,341	72,647	392,615	1,031,516	(638,901)
Total	3,379,186	4,281,612	(902,426)	13,652,985	21,171,159	(7,518,174)

Overall, total revenue decreased 35.5% from \$21,171,159 in 2019 to \$13,652,985 in 2020. An increase in Licensing revenues was more than offset by decreases in the other three categories: SaaS revenues decreased by 28.5%, Hardware decreased by 65.3% and Technical Services revenue decreased by 61.9%.

SaaS Recurring revenue accounted for 48.2% of revenue in Q4 2020 (Q4 2019: 63.3%), and 53.6% YTD 2020 (YTD 2019: 48.4%), as FLYHT experienced greater pandemic impact in the hardware sales category than SaaS. The decrease in SaaS from 2019 to 2020 is due to the decrease in overall customer flights during the COVID-19 pandemic, although this was kept to a minimum by a diverse customer base, as decreases in flights provided by most commercial carriers were offset to a small degree by increases in demands placed on cargo fleets.

Hardware sales declined in 2020 as compared to 2019 as a decreased number of installation kits were shipped, particularly in the first half of 2020 as many customers adapted to the pandemic by reducing their capital expenditures. A total of 34 installation kits were shipped in 2020, compared to 133 in 2019.

Licensing increased in 2020 from 2019 due to differences in the number of modems with related license fees shipped.

Technical Services revenue increased in the Q4 2020 over Q4 2019 while showing a 61.9% decrease year over year. This revenue category can be expected to vary significantly between periods and years, depending on the level of technical services provided to customers in each period.

Revenue sources for the last eight quarters were:

	Q4 2020	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019
SaaS	1,627,421	1,652,001	1,305,049	2,738,654	2,711,228	2,649,345	2,480,880	2,405,232
Hardware	1,490,709	137,137	450,841	227,684	657,577	1,864,523	1,754,672	2,374,901
Licensing	48,068	86,033	1,233,096	2,263,677	772,466	589,546	1,501,513	377,760
Technical Services	212,988	43,239	71,171	65,217	140,341	94,032	613,284	183,859
Total	3,379,186	1,918,410	3,060,157	5,295,232	4,281,612	5,197,446	6,350,349	5,341,752

	Q4 2020		Q4 2019		YTD 2020		YTD 2019	
	\$	%	\$	%	\$	%	\$	%
United States & Mexico	1,163,945	34.4	1,963,440	45.9	6,627,963	48.5	7,907,107	37.4
Asia	464,192	13.7	858,485	20.1	1,511,399	11.1	4,126,531	19.5
China	410,182	12.1	466,239	10.9	1,625,612	11.9	3,360,888	15.9
Middle East	231,510	6.9	179,083	4.2	903,656	6.6	1,999,975	9.4
Canada	697,895	20.7	260,191	6.1	1,539,009	11.3	1,612,114	7.6
Australia	77,094	2.3	275,396	6.4	415,011	3.0	764,484	3.6
Africa	138,055	4.1	146,683	3.4	545,828	4.0	599,777	2.8
Europe	170,211	5.0	53,360	1.2	334,684	2.5	480,629	2.3
South/Central America	26,102	0.8	78,735	1.8	149,823	1.1	319,654	1.5
Total	3,379,186	100.0	4,281,612	100.0	13,652,985	100.0	21,171,159	100.0

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 2020 was 44.0% compared to 37.3% in 2019's fourth quarter. A review of the annual results shows the cost of sales as a percentage of revenue decreased from 41.8% in 2019 to 32.2% in 2020. The increase in gross margin was due to differences in the mix of revenue sources in 2020 versus 2019. Gross margin will fluctuate quarter over quarter depending on customer needs and revenue mix.

Gross margin for the last eight quarters was:

	Q4 2020	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019
Gross Margin %	56.0	69.2	67.5	75.0	62.7	48.5	66.3	54.5
Cost of Sales	44.0	30.8	32.5	25.0	37.3	51.5	33.7	45.5

Distribution Expenses (Recovery)

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

Major Category	Q4 2020 \$	Q4 2019 \$	Variance \$	YTD 2020 \$	YTD 2019 \$	Variance \$
Salaries and benefits	872,747	1,200,751	(328,004)	4,460,350	5,889,166	(1,428,816)
Share based compensation	6,327	8,825	(2,498)	27,208	38,346	(11,138)
Contract labour	306,809	175,557	131,252	765,169	637,992	127,177
Office	20,244	49,324	(29,080)	185,768	223,896	(38,128)
Travel	15,795	124,853	(109,058)	142,160	566,700	(424,540)
Equipment and maintenance	6,322	12,101	(5,779)	42,226	59,132	(16,906)
Depreciation	112,568	122,211	(9,643)	558,960	527,994	30,966
Marketing	44,331	53,962	(9,631)	92,734	116,703	(23,969)
Government grants	(166,284)	-	(166,284)	(1,266,767)	-	(1,266,767)
Bad debt reserve	310,577	244,893	65,684	384,056	235,840	148,216
Total	1,529,436	1,992,477	(463,041)	5,391,864	8,295,769	(2,903,905)

Distribution expenses decreased 35.0% from 2019 to 2020, due mainly to decreased people costs and the receipt of government subsidies.

Salaries and benefits have decreased due to reductions in staff, in line with the Company's strategy of increased emphasis on development and sale of SaaS solutions to support our customers in their post-pandemic recovery plans.

Contract labour increased commencing in the fourth quarter of 2020, as external resources have been engaged to assist in sales and marketing efforts.

Travel expenses have decreased with the institution of travel restrictions throughout 2020 together with the impact of cancelled events throughout the year. As an alternative, the Company has continued these important communications by using online meeting tools.

Office expenses are lower in 2020 compared to 2019 due to differences in operating expenses at the Littleton facilities, together with improvements in overall IT infrastructure that will result in a lower cost structure for that area of the business. Decreased credit receivables premiums were also a contributing factor to the decreases in this category.

Government grants comprises 2020 funding received from both the Canadian (CEWS program) and United States (CARES PPP program) governments, in their support of businesses throughout the pandemic and is an offset to the salaries expense in this category.

Bad debt reserve expense reflects differences in bad debt reserve both in Q4 and YTD 2020.

Administration Expenses (Recovery)

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 2020 \$	Q4 2019 \$	Variance \$	YTD 2020 \$	YTD 2019 \$	Variance \$
Salaries and benefits	846,670	587,543	259,127	2,342,232	2,004,409	337,823
Share based compensation	(30,356)	22,141	(52,497)	120,924	101,328	19,596
Contract labour	146,935	93,073	53,862	470,549	399,400	71,149
Office	109,993	132,054	(22,061)	492,879	475,049	17,830
Legal fees	6,472	3,920	2,552	78,889	39,700	39,189
Audit and accounting	43,082	62,861	(19,779)	193,807	293,823	(100,016)
Investor relations	41,374	58,014	(16,640)	170,510	210,772	(40,262)
Travel	4,797	70,071	(65,274)	71,227	225,769	(154,542)
Equipment and maintenance	113,927	56,289	57,638	316,333	213,973	102,360
Government grants	(83,460)	-	(83,460)	(384,286)	-	(384,286)
Depreciation	29,959	96,374	(66,415)	163,580	181,564	(17,984)
Other	11,550	16,809	(5,259)	19,992	68,132	(48,140)
Total	1,240,943	1,119,149	41,794	4,056,636	4,213,919	(157,283)

Administration expenses decreased by 3.7% from 2019 to 2020.

Salaries and benefits and **Contract labour** increased from 2019 to 2020 due to a retiring allowance accrual and a change in the mix of personnel between years.

Share based compensation expense increased from 2019 to 2020, reflecting an increased volatility in share price, and the resulting impact in valuation of options granted under the 2020 stock option plan.

Audit and accounting decreased from 2019 to 2020 due to decreased 2020 revenues as the basis for the Company's financial audit, together with the work required in 2019 regarding the adoption of IFRS16 not being required in 2020, both of which were partially offset by increased work required due to changes in auditing standards.

Investor relations decreased as conferences throughout 2020 were cancelled, and the expenses associated with the November 2019 private placement did not recur.

Travel expenses decreased as international travel was halted throughout 2020 and all in-person conventions and conferences were cancelled. As an alternative, the Company has continued these important communications by using online meeting tools.

Equipment and maintenance increases reflect the spend required in moving to online communication and collaboration tools which have allowed the Company's staff to operate within a flexible work environment, ensuring the team continued to be productive and effective throughout the pandemic.

Government grants comprises 2020 funding received from both the Canadian (CEWS and CERS programs) and United States (CARES PPP program) governments in their support of businesses throughout the pandemic and is an offset to expenses in both the salaries and office categories.

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 2020 \$	Q4 2019 \$	Variance \$	YTD 2020 \$	YTD 2019 \$	Variance \$
Salaries and benefits	886,327	931,011	(44,684)	3,341,024	3,203,141	137,883
Share based compensation	3,693	3,707	(14)	11,754	13,889	(2,135)
Contract labour	75,430	115,326	(39,896)	433,854	255,994	177,860
Office	23,418	42,443	(19,025)	79,493	144,770	(65,277)
Travel	3,379	10,946	(7,567)	16,232	103,357	(87,125)
Equipment and maintenance	8,019	2,885	5,134	21,781	13,297	8,484
Components	13,938	(30,222)	44,160	30,315	16,904	13,411
Depreciation	34,175	35,067	(892)	145,778	131,860	13,918
Government grants	(92,023)	(10,819)	(81,204)	(742,295)	(114,605)	(627,690)
Other	200	617	(417)	306	907	(601)
Total	956,556	1,100,961	(144,405)	3,338,242	3,769,514	(431,272)

Research and Development expenses were 11.4% lower in 2020 compared to the prior year. The main contributors to the decrease were increased people costs as the Company invests particularly in development efforts with regards to its Actionable Intelligence suite of products, offset by government grants received. Research and development costs vary according to specific project requirements.

Both **Salaries and benefits** expense and **Contract labour** increased in 2020 to meet the requirements of R&D-type projects.

Office expenses decreased from 2019 to 2020 due to differences in operating expenses at the Littleton facilities, together with improvements in overall IT infrastructure that has resulted in a lower cost structure for that area of the business.

Travel expenses decreased with the institution of travel restrictions throughout 2020 together with the impact of cancelled events throughout the year. As an alternative, the Company has continued these important communications by using online meeting tools.

Government grants variances reflect differences in pandemic support received from both the Canadian (CEWS program) and United States (CARES PPP program) governments, and in expenses eligible for funding under the WINN program in 2020 versus 2019. Recoveries relating to WINN funding are the portion of the amounts received from WINN that have been accounted for as a grant.

Net Finance Costs

Major Category	Q4 2020 \$	Q4 2019 \$	Variance \$	YTD 2020 \$	YTD 2019 \$	Variance \$
Interest (income)	4,287	(13,290)	17,577	(45,008)	(29,810)	(15,198)
Net foreign exchange loss	113,724	65,962	47,762	139,548	172,495	(32,947)
Bank service charges	6,653	7,786	(1,133)	29,528	29,942	(414)
Other loss (gain)	(144,626)	-	(144,626)	(419,682)	-	(419,682)
Interest expense	34,758	21,225	13,533	134,386	95,050	39,336
Government loan accretion	86,154	105,147	(18,993)	420,423	396,351	24,072
Debenture interest and accretion	64,372	61,037	3,335	254,571	256,780	(2,209)
Net finance costs	165,322	247,867	(82,545)	513,766	920,808	(407,042)

Net foreign exchange loss varies between periods due to fluctuations in the value of the Canadian dollar in relation to the U.S. dollar. A strengthening of the Canadian dollar in 2020 gave rise to smaller foreign exchange losses in 2020 than in 2019 on U.S. dollar denominated sales and purchases, in combination with fluctuations in U.S. denominated assets and liabilities.

Government loan accretion is the recognition of the effective interest component of the SADI and WINN grants.

Other gain is the recognition of the benefit derived from payment deferral of the Company's government loans.

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 2020 \$	Q4 2019 \$	Variance \$	YTD 2020 \$	YTD 2019 \$	Variance \$
Net income (loss)	(1,999,715)	(1,212,971)	(786,744)	(3,237,457)	(746,635)	(2,490,822)

Other income

All subsidies and reconciling items from the October 2018 asset acquisition of Panasonic Weather Solutions were recognized by the end of Q2 2020. No other income was recognized in the remainder of 2020.

Other

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

The negative impact to the commercial air industry by the COVID-19 pandemic is unprecedented. The Company has seen impact to revenues and continues to expect near and intermediate term risk in all aspects of revenue and timing of trade receivable payments due to the impact of the pandemic on our customers. This risk will also have an impact on FLYHT's cashflows until such a time as the industry recovers. There exists a possibility that an extended industry recovery could cause FLYHT 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 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 system formerly hosted in the United States has been fully migrated to AWS in 2020. This will minimize the risk of possible system disruption that would negatively impact FLYHT's customers.

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 engages third parties for security assessment and to test the penetrability of the systems according to best practices within the enterprise community. A security breach could expose data to external, unauthorized third parties and cause various contractual breaches. To date, no such breach has knowingly occurred on any of the Company's systems. FLYHT will continue to monitor and improve our solutions, including the security aspect. 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 recognizes 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 continually documents and distributes 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

As development of the AFIRS 228, FlightLink and TAMDAR product lines is complete, FLYHT continues to build out its Supplemental Type Certificate portfolio for these products. 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 Enterprise suite of applications including UpTime Cloud. FLYHT is confident these products fill a gap in the industry, as evidenced by sales of the AFIRS 228 products to date. With the changes to the industry brought on by the COVID 19 situation, the return to value added SaaS products is critical. Early indications that our Actionable Intelligence strategy is highly desirable by industry players of all sizes to assist in the recovery of the industry have been encouraging. The Company's success will ultimately depend on the success of its products, and future enhancements made to them.

Revenues associated with TAMDAR

TAMDAR has been installed on over 300 aircraft for the purposes of collecting weather data. FLYHT supplies this weather data to Synoptic Data PBC as part of their participation in the National Mesonet program. FLYHT is receiving revenues from Synoptic based upon this participation, which is correlated to the number and quality of the weather soundings provided. If these observations fall in 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's strategy to mitigate these potential problems and potentially grow the revenues derived from TAMDAR has been to invest in quality control programs to ensure that the sensors are properly calibrated and producing valid and valuable data, and to supplement this data whenever possible with AMDAR weather data. The number of flights around the world have decreased during the COVID-19 pandemic, decreasing the amount of weather data being collected from those aircraft with TAMDAR sensors installed, which has been reflected in the Company's revenues.

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 procures from suppliers. These units are tested and certified at the FLYHT-Littleton location before being shipped to customers. FLYHT maintains close communication with its partners and suppliers to ensure all key components for TAMDAR and FlightLink are available for manufacturing. FlightLink and TAMDAR are currently serviced by Panasonic owned maintenance and repair facilities in Washington State, USA and Singapore. FLYHT is working towards FAA approval for Part 145 repair facility at FLYHT-Littleton.

Proprietary protection

Patent rights are 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. The Company has defended patent claims in court and been successful.

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.

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 has been used for many years but more recently they moved to issuing three-year grants to Iridium Communications Inc. versus the former annual grant system. 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.

Transactions with Related Parties

A company related to an officer of FLYHT provided marketing services in 2020. All of the transactions with the related party were at terms equivalent to those that prevail in arm's length transactions and were supported by a third party receipt.

Amounts included in:	For the three months ended December 31		For the year ended December 31	
	2020	2019	2020	2019
	\$	\$	\$	\$
Contract labour	20,685	-	22,575	-
Accounts payable	10,895	-	10,895	-

COVID-19

While most industries have felt the effects of COVID-19 over the past year, the pandemic has substantially impacted commercial aviation. From early January 2020 onward, 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. Various segments of the aviation industry have been impacted differently over the past year, with the decline in commercial aviation being partially offset by an increased demand for cargo services. Geographic differences continue to occur, as subsequent pandemic waves affect different parts of the globe at different times, vaccination programs vary greatly between countries, and remote locations of the world maintaining their supply chain and connection to the rest of the world via air transport.

Due to the equity raise in November 2019, which improved the Company's working capital, the Company entered 2020 with a relatively robust cash position. Despite the negative revenue impact of COVID-19 throughout the year, the Company was able to increase cash levels throughout 2020. The Company anticipates continued negative revenue impact in the near-term due to customers rescheduling orders and decreases in air traffic, which will continue to impact the Company's corresponding hardware and SaaS revenues. This has been reflected in corresponding revenues, and in the negative trend in the bad debt reserve while airline recovery timing is still to be determined. The Company's bad debt reserve at December 31, 2020 has increased to \$980,532 from \$544,880 at December 31, 2019.

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

- Focused development on long-term SaaS partnerships, including the launch of Actionable Intelligence
- Focused spending on immediate revenue opportunities
- Access to governmental support
- Cost containment and cash conservation
- Working with existing partner airlines to assist in their recovery

The Company will continue to monitor industry conditions and implement these and other measures, as the situation dictates.

As of December 31, 2020, the Company has recognized a total of \$2.1 million in government financial relief related to COVID-19 which has been applied to offset associated expenses in all three expense categories (Distribution, Administration and Research & Development). All grant funds received to date have been applied against applicable expenses.

Subsequent Event

A further amendment was made on March 25, 2021 to the Company's contribution agreement with Western Economic Diversification Canada under the WINN loan agreement originally signed in November 2018. Amended terms extend the timeframe for eligible project cost submission from September 30, 2021 to September 30, 2023 and adjust the repayment start date from October 1, 2021 to October 1, 2023.

Contingent Liability

As announced on June 30, 2020, the Company received a statement of claim from Thomas R. Schmutz (former Chief Executive Officer of FLYHT) in the amount of \$525,000 CAD in relation to the termination of his employment with the Company. The financial results include a provision based on management's best estimate of the expected costs to settle the matter, which is less than the amount of the statement of claim.

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, 2020 and December 31, 2019;
- the consolidated statements of comprehensive loss for the years then ended;
- the consolidated statements of changes in equity 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, 2020 and December 31, 2019, 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(e) in the financial statements, which indicates that the Company incurred losses of \$3.3 million and \$0.7 million for the years ended 2020 and 2019 respectively and as at December 31, 2020 has a deficit of \$73.3 million.

As stated in Note 2(e) in the financial statements, these events or conditions, along with other matters as set forth in Note 2(e) in the financial statements, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis to be filed with the relevant Canadian Securities Commissions.
- the information, other than the financial statements and the auditor's report thereon, included in a document entitled "2020 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 and the 2020 Annual Report to be filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

KPMG LLP

Chartered Professional Accountants
Calgary, Canada
April 7, 2021

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31, 2020	December 31, 2019
	\$	\$
Assets		
Current assets		
Cash and cash equivalents (note 5)	5,127,963	4,127,648
Trade and other receivables (note 6)	1,587,275	4,980,405
Contract assets	187,892	256,125
Deposits and prepaid expenses	544,052	797,759
Inventory (note 7)	1,561,959	1,672,068
Total current assets	9,009,141	11,834,005
Non-current assets		
Property and equipment (note 8)	3,035,392	1,337,306
Intangible assets (note 9)	34,992	34,992
Inventory (note 7)	1,656,710	1,529,923
Total non-current assets	4,727,094	2,902,221
Total assets	13,736,235	14,736,226
Liabilities		
Current liabilities		
Trade payables and accrued liabilities (note 10)	2,128,941	2,346,560
Customer deposits (note 11)	492,679	160,706
Contract liabilities (note 12)	-	658,655
Loans and borrowings (note 13)	2,376,594	718,015
Lease liability (note 14)	679,816	625,590
Total current liabilities	5,678,030	4,509,526
Non-current liabilities		
Loans and borrowings (note 13)	3,012,136	4,160,920
Lease liability (note 14)	2,157,326	457,094
Provisions (note 15)	24,103	30,202
Total non-current liabilities	5,193,565	4,648,216
Total liabilities	10,871,595	9,157,742
Equity		
Share capital (note 16)	63,995,030	63,508,080
Convertible debenture – equity feature	173,524	173,524
Warrants (note 16)	1,195,396	1,247,311
Contributed surplus	10,832,085	10,647,771
Cumulative translation adjustment	(51,000)	(32,176)
Deficit	(73,280,395)	(69,966,026)
Total equity	2,864,640	5,578,484
Total liabilities and equity	13,736,235	14,736,226

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

On behalf of the board



Director – Doug Marlin



Director – Paul Takalo

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

For the year ended December 31

	2020 \$	2019 \$
Revenue (note 18)	13,652,985	21,171,159
Cost of sales	4,395,886	8,844,357
Gross profit	9,257,099	12,326,802
Distribution expenses (note 20)	5,391,864	8,295,769
Administration expenses (note 21)	4,056,636	4,213,919
Research, development and certification engineering expenses (note 22)	3,338,242	3,769,514
Loss from operating activities	(3,529,643)	(3,952,400)
Other Income (note 19)	806,913	4,126,573
Finance income (note 23)	(464,690)	(29,810)
Finance costs (note 23)	978,456	950,618
Net finance costs	513,766	920,808
Loss before income tax	(3,236,496)	(746,635)
Income tax (note 24)	(961)	-
Loss	(3,237,457)	(746,635)
Foreign currency translation adjustment	(18,824)	(67,814)
Comprehensive loss	(3,256,281)	(814,449)
Loss per share		
Basic and diluted loss per share (note 17)	(0.12)	(0.04)

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the years ended December 31, 2020 and 2019

	Share Capital \$	Convertible Debenture \$	Warrants \$	Contributed Surplus \$	Cumulative Translation Adjustment	Deficit \$	Total Equity (Deficit) \$
Balance at January 1, 2020	63,508,080	173,524	1,247,311	10,647,771	(32,176)	(69,966,026)	5,578,484
Income for the period	-	-	-	-	(18,824)	(3,237,457)	(3,256,281)
Total comprehensive loss	-	-	-	-	(18,824)	(3,237,457)	(3,256,281)
Contributions by and distributions to owners							
Share-based payment transactions	-	-	-	159,885	-	-	159,885
Warrant modification	-	-	76,912	-	-	(76,912)	-
Warrants exercised	486,950	-	(104,398)	-	-	-	382,552
Warrants expired	-	-	(24,429)	24,429	-	-	-
Total contributions by and distributions to owners	486,950	-	(51,915)	184,314	-	(76,912)	542,437
Balance at December 31, 2020	63,995,030	173,524	1,195,396	10,832,085	(51,000)	(73,280,395)	2,864,640
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	-	-	-	-	(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

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the year ended December 31

	2020 \$	2019 \$
Cash flows used in operating activities		
Loss for the period	(3,237,457)	(746,635)
Depreciation – property and equipment	828,528	834,479
Loss on disposal of PPE	39,789	6,938
Convertible debenture accretion	254,571	256,780
Lease liability accretion	134,246	91,977
Grant portion of contributions from WINN	(119,047)	(114,605)
CARES (PPP) loan forgiveness	(745,472)	-
Gain on loan modification	(419,682)	-
Government loan accretion	420,422	396,350
Equity-settled share-based payment transactions	159,885	153,563
Change in inventories	(16,678)	(1,090,279)
Change in trade and other receivables	3,327,220	(1,499,567)
Change in contract assets	68,233	139,570
Change in prepayments	253,707	(570,694)
Change in trade and other payables	(268,436)	(45,525)
Change in customer deposits	331,973	(501,127)
Change in contract liabilities	(143,309)	143,309
Change in provisions	2,636	37,454
Provision used	(8,735)	(50,953)
Unrealized foreign exchange loss	220,987	23,725
Other interest expense	140	95,050
Interest paid	(192,992)	(208,848)
Interest income	(45,008)	(29,810)
Interest received	44,036	23,384
Income tax expense	961	-
Income tax paid	(961)	(272)
Net cash from (used in) operating activities	889,557	(2,655,736)
Cash flows used in investing activities		
Acquisitions of property and equipment (PPE)	(347,587)	(169,326)
Net cash used in investing activities	(347,587)	(169,326)
Cash flows from financing activities		
Subsidy payment received	231,377	3,116,935
Less subsidy recognized (note 12)	(806,913)	(4,126,573)
Net proceeds from private placement	-	5,948,733
Proceeds from exercise of warrants	382,552	-
Contributions from CARES (PPP)	745,472	-
Contributions from WINN	624,480	376,580
Repayment of borrowings	(117,000)	(137,234)
Lease payments	(560,810)	(544,583)
Net cash from financing activities	499,158	4,633,858
Net increase in cash and cash equivalents	1,041,128	1,808,796
Cash and cash equivalents, beginning	4,127,648	2,406,769
Effect of exchange rate fluctuations on cash held	(40,813)	(87,917)
Cash and cash equivalents, ending	5,127,963	4,127,648

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2020 and 2019

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.

FLYHT provides airlines with Actionable Intelligence to transform operational insight into immediate, quantifiable action, delivering industry leading solutions to improve aviation safety, efficiency and profitability. This unique capability is driven by FLYHT’s patented aircraft certified hardware products including AFIRS™, a satcom aircraft interface device which enables real-time streaming of flight information, cockpit voice and black box data streaming and TAMDAR™, 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 7, 2021.

(b) Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis, 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. The functional currency of the Company’s USA subsidiary is US dollars.

(d) COVID-19

While most industries have felt the effects of COVID-19 over the past year, the pandemic has substantially impacted commercial aviation. From early January 2020 onward, 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. Various segments of the aviation industry have been impacted differently over the past year, with the decline in commercial aviation being partially offset by an increased demand for cargo services. Geographic differences continue to occur, as subsequent pandemic waves affect different parts of the globe at different times, vaccination programs vary greatly between countries, and remote locations of the world maintaining their supply chain and connection to the rest of the world via air transport.

Due to the equity raise in November 2019, which improved the Company’s working capital, the Company entered 2020 with a relatively robust cash position. Despite the negative revenue impact of COVID-19 throughout the year, the Company was able to increase cash levels throughout 2020. The Company anticipates continued negative revenue impact in the near-term due to customers rescheduling orders and decreases in air traffic, which will continue to impact the Company’s corresponding hardware and SaaS revenues, and a potential impact on the Company’s ability to collect accounts receivable. This is reflected in the negative trend in the bad debt reserve while airline recovery timing is still to be determined. The Company’s bad debt reserve at December 31, 2020 has increased to \$1,003,574 from \$544,880 at December 31, 2019.

To preserve the Company's liquidity through this period of commercial aviation uncertainty, the following measures have been undertaken: Focused development on long-term SaaS partnerships, including the launch of Actionable Intelligence

- Focused spending on immediate revenue opportunities
- Access to governmental support
- Cost containment and cash conservation
- Working with existing partner airlines to assist in their recovery

The Company will continue to monitor industry conditions and implement these and other measures, as the situation dictates.

As of December 31, 2020, the Company has recognized a total of \$2.1 million in government financial relief related to COVID-19 which has been applied to offset associated expenses in all three expense categories (Distribution, Administration and Research & Development). All grant funds received to date have been recognized in profit and loss.

(e) 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, 2020, the Company had positive working capital of \$3,664,545 compared to positive \$7,324,479 as of December 31, 2019, a decrease of \$3,659,934. The Company ended 2020 with balances of \$5.1 million in cash and cash equivalents, an undrawn credit facility of \$1.5 million and \$2.0 million in contributions under WINN loans not yet received. However, for the years ended December 31, 2020 and 2019, the Company incurred losses of \$3.2 million and \$0.7 million respectively and as at December 31, 2020 has a deficit of \$73.3 million.

For the Company to continue as a going concern longer-term, it will need to achieve profitability and maintain 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. However, the negative impact to the commercial air industry from the COVID-19 pandemic is unprecedented. The reduction in the number of flights is expected to continue to impact the amount of SaaS revenue generated by the Company, while deferred and/or lower investments in airplanes may continue to negatively impact the Company's hardware and license revenues, with timing of recovery to pre-pandemic levels being uncertain.

Until achieving consistent net income and positive operating 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.

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.

As a result of these factors, there is a material uncertainty that may result in significant doubt as to the Company's ability to meet its obligations as they come due and continue as a going concern.

If the going concern assumption was not appropriate for these consolidated financial statements, adjustments would be necessary to the carrying value of assets and liabilities, the reported revenues and expenses and the statement of financial position classification used.

(f) Use of judgements and estimates

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. Valuation of convertible debt instruments: a discount rate is used to determine the fair value of the loan in the year of issuance.
7. Revenue recognition: accounting for revenue from customers requires management to make judgements when identifying performance obligations in each contract. Estimates are required to be made when determining the transaction price and when allocating the transaction price to the performance obligations identified, and, for certain contracts, when measuring progress of the transfer of the performance obligation.

3. Significant accounting policies

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

(a) Basis of consolidation

(i) Subsidiaries

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

These consolidated financial statements consolidate the accounts of FLYHT and its wholly owned subsidiaries, FLYHT Inc., AeroMechanical Services USA Inc., FLYHT Corp. 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 assets	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 Actionable Intelligence). 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. To date, all development costs have been expensed as incurred.

(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

(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.

The Corporation expenses the lease payments associated with short-term leases with durations of less than 12 months, and leases of low-value assets.

(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, including forgiveness of government loans, 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 expensed 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. 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. 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.

(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.

4. 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. When measuring the fair value of an asset or a liability, the Company uses observable market data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

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 (Level 2).

- (a) Cash and cash equivalents, 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.

5. Cash and cash equivalents

Cash and cash equivalents consist of cash balances and bank deposits with an original maturity of three months or less.

6. Trade and other receivables

	December 31, 2020	December 31, 2019
	\$	\$
Trade receivables	1,585,437	4,949,972
Non-trade receivables and accrued receivables	1,838	30,433
Total	<u>1,587,275</u>	<u>4,980,405</u>

Non-trade receivables consist of input tax credits. The Company's exposure to credit and currency risks is disclosed in note 25.

7. Inventory

	December 31, 2020	December 31, 2019
	\$	\$
Raw materials	1,973,869	2,270,621
Work in progress	12,195	3,858
Finished goods	1,232,605	927,512
Balance	<u>3,218,669</u>	<u>3,201,991</u>
Less current portion	(1,561,959)	(1,672,068)
Non-current portion	<u>1,656,710</u>	<u>1,529,923</u>

In 2020 Raw materials and Finished goods recognized as cost of sales amounted to \$1,956,743 (2019: \$4,834,375). Included in this amount was a write down of inventories amounting to \$42,774 (2019: \$88,814) resulting from the review of slow moving inventory parts. All inventories are pledged as security for the bank loan and the convertible debenture (note 13).

8. Property and equipment

2020	Computers and Software	Equipment	Leasehold Improvements	Leased Assets	Total
	\$	\$	\$	\$	\$
Cost					
Balance at January 1	1,000,948	445,233	67,219	1,535,290	3,048,690
Additions	121,011	226,576	-	2,258,667	2,606,254
Disposals	(311,363)	(129,815)	(49,110)	-	(490,288)
Cumulative translation adjustment	(4,143)	(971)	(403)	(22,264)	(27,781)
Balance at December 31	806,453	541,023	17,706	3,771,693	5,136,875
Accumulated Depreciation					
Balance at January 1	773,757	279,324	48,573	609,730	1,711,384
Depreciation for the year	112,241	48,645	11,484	656,158	828,528
Disposals	(296,680)	(104,709)	(49,110)	-	(450,499)
Cumulative translation adjustment	1,635	709	167	9,559	12,070
Balance at December 31	590,953	223,969	11,114	1,275,447	2,101,483
Carrying Amounts					
At January 1	227,191	165,909	18,646	925,560	1,337,306
At December 31	215,500	317,054	6,592	2,496,246	3,035,392
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

As of December 31, 2020, all property and equipment are pledged as security for the bank loan and the convertible debenture (note 14).

9. Intangible assets

The intangible assets are the value of a license purchased from Bombardier that allows FLYHT access to technical documents for their CRJ aircraft. It has an indefinite life, is not amortized, and is tested for impairment annually. The Company continues to support customer aircraft built by Bombardier and foresees no end to the usefulness of those technical documents.

Intangible assets are pledged as security for the bank loan and the convertible debenture (note 13).

10. Trade payables and accrued liabilities

	December 31, 2020	December 31, 2019
	\$	\$
Trade payables	1,120,306	1,811,948
Compensation and statutory deductions	920,694	422,778
Accrued liabilities	87,941	111,834
Balance, December 31	2,128,941	2,346,560

Compensation and statutory deductions include accrued vacation pay, variable compensation, accrued compensation, accrued retiring allowance and statutory payroll deductions. Compensation and statutory deductions includes \$143,898 in accrued compensation payable to an officer of the Company.

11. Customer deposits

	December 31, 2020	December 31, 2019
	\$	\$
Opening balance	160,706	661,833
Payments received	3,410,369	3,931,575
Recognized as revenue	(3,078,396)	(4,432,702)
Balance, December 31	492,679	160,706

12. Contract liabilities

	December 31, 2020	December 31, 2019
	\$	\$
Opening balance	658,655	1,524,984
Payments received	231,377	3,116,935
Recognized in Other Income	(806,913)	(4,126,573)
Effect of exchange rate variance	60,190	-
Weather licensing	(143,309)	143,309
Balance, December 31	-	658,655

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 was paid over the term of the transition period, and the portion of the amounts received that relate to future periods were held in Contract Liabilities until they were recognized in Other Income on the Consolidated Statement of Comprehensive Loss and included in Cash flows used in operating activities in the Consolidated Statement of Cash Flows. All subsidies under this agreement were recognized by the end of Q2 2020.

The 2019 weather licensing contract liability related to contract initiation and exclusivity fees, reflecting the timing difference between revenue recognition and contracted billing milestones.

13. Loans and borrowings

	2020		2019	
	Face value \$	Carrying value \$	Face value \$	Carrying value \$
SADI loan	1,370,247	1,262,090	1,370,247	1,340,262
WINN loan	3,021,262	2,470,580	2,513,782	2,003,235
Convertible debenture	1,806,425	1,656,060	1,940,374	1,535,438
Balance, December 31	6,197,934	5,388,730	5,824,403	4,878,935
Less current portion	2,570,296	2,376,594	720,769	718,015
Non-current portion	3,627,638	3,012,136	5,103,634	4,160,920

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. The facility was undrawn at both December 31, 2019 and 2020.

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. The full amount was received by the Company by the end of 2019.

In November 2018, the Company signed a second contribution for a (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, 2020, the Company had received contributions totaling \$788,262 under this loan (2019: 163,782). The fair value of the grants received in 2020 was calculated using an interest rate of 12% (2019: 12%).

Both WINN loans are interest free.

Under SADI, the Company received a loan of \$1,967,507 which 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 January 31, 2029 when the final payment is 24.5% of the total contribution received.

In 2020, in response to the COVID-19 pandemic, the repayment terms of the SADI and WINN loans were modified, to defer repayments for a period of 9 months. This modification resulted in a gain on the SADI and WINN loans of \$279,723 and \$139,959 respectively.

A summary of the carrying value of the SADI and WINN loans as at December 31, 2020 and 2019 and changes during these years is presented below.

	2020	2020	2020	2019	2019	2019
	SADI	WINN	Total	SADI	WINN	Total
	\$	\$		\$	\$	
Balance January 1	1,340,262	2,003,235	3,343,497	1,252,743	1,569,663	2,822,406
Contributions received	-	624,480	624,480	-	376,580	376,580
Grant portion	-	(119,047)	(119,047)	-	(114,605)	(114,605)
Interest accretion	201,551	218,871	420,422	224,753	171,597	396,350
(Gain) on loan modification	(279,723)	(139,959)	(419,682)	-	-	-
Repayment	-	(117,000)	(117,000)	(137,234)	-	(137,234)
Balance December 31	1,262,090	2,470,580	3,732,670	1,340,262	2,003,235	3,343,497
Less current portion	156,258	564,276	720,534	151,750	439,899	591,649
Non-current portion	1,105,832	1,906,304	3,012,136	1,188,512	1,563,336	2,751,848

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 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. During 2020, no convertible debentures were converted into common shares.

Purchasers of the Debentures also received 769,200 warrants (Warrants) (for every \$1.00 principal amount of Debentures acquired pursuant to the offering, Debenture holders received approximately 0.3846 Warrants). The original agreement allowed for each whole Warrant to be exercised 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.

In July 2020 the Company amended the exercise price of the Warrants to \$0.60 and extended the term of the Warrants to December 24, 2020, subject to 30-day acceleration if, for any ten consecutive trading days during the unexpired term of such Warrants, the closing price of the Company's Shares is greater than \$0.72. Of these Warrants, 622,885 were exercised prior to expiry, while the remaining 146,345 expired on December 24, 2020. The warrant modification resulted in an increase of \$76,912 to the value of the warrants (note 16).

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.

	2020	2019
	\$	\$
Balance January 1	1,535,438	1,727,773
Interest payments	(133,949)	(133,949)
Conversions	-	(315,166)
Accrued interest	254,571	256,780
Carrying amount of liability at December 31	1,656,060	1,535,438
Less current portion	1,656,060	126,366
Non-current portion	-	1,409,072

14. Lease liability

On March 1, 2020 the leasing arrangement for the new corporate head office of FLYHT commenced. The terms of the lease include a 16-month period, followed by an initial 10-year contract term with annual payment amounts beginning at \$261,606 for the first 3 years, escalated by approximately 6% for years 4-6, an additional 6% for years 7-9, and an additional 6% for the final year. At inception in Q1 2020, the Company recognized a right of use asset of \$2,257,457 in Property and Equipment and a lease liability for the same amount. The amount was determined using a discount rate of 3.95%, based on the incremental borrowing rate of the Company, and a lease term of 136 months. Amortization of the asset and accretion of the associated lease liability commenced on March 1, 2020.

Depreciation of the lease asset related to FLYHT's former corporate head office, together with depreciation of the related leasehold improvements, was accelerated and the assets were fully depreciated in Q3 2020 in conjunction with the move to the new office space. The lease contract for the former premises expires in February 2021 with lease payments continuing until lease completion.

	2020	2019
	\$	\$
Opening balance	1,082,684	1,548,834
Additions	2,258,667	32,687
Finance costs (note 23)	134,386	91,977
Lease payments	(619,853)	(544,583)
Cumulative translation adjustment	(18,742)	(46,231)
Balance, December 31	2,837,142	1,082,684
Less current portion	679,816	625,590
Non-current portion	2,157,326	457,094

15. Provisions

	2020	2019
	\$	\$
Product warranty		
Balance January 1	30,202	43,701
Provision made during the period	1,151	4,705
Provision extinguished	(765)	(5,706)
Provision re-evaluation	2,250	38,455
Provision used during the period	(8,735)	(50,953)
Balance, December 31	24,103	30,202

A provision for warranties is recognized when the underlying products or services are sold. The provision is based on historical warranty data. The provision extinguished was the value of the provision for warranties expiring throughout each respective year.

16. Capital and other components of equity

Share capital

Authorized:

Unlimited numbers of common shares, and classes A, B and C preferred shares, issuable in series, having no par value.

The preferred shares may be issued in one or more series. The directors are authorized to fix the number of shares in each series and to determine the designation, rights, privileges, restrictions and conditions attached to the shares in each series.

Issued and outstanding:

Common shares:	Number of Shares	Value \$
Balance January 1, 2019	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
Exercise of warrants	624,696	486,950
Balance December 31, 2020	27,279,024	63,995,030

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.

In 2020 warrant exercises resulted in the Company issuing 624,696 shares for total proceeds of \$382,552. No options were exercised nor were any debentures converted in 2020.

Stock option plan

The Company grants stock options to its directors, officers, employees and consultants. The following stock options were granted in 2020:

- 755,300 stock options to employees, officers and directors under the stock option plan with an exercise price of \$0.59. The options will vest in equal tranches on June 23, 2021, 2022 and 2023 and will expire on June 23, 2024.
- 160,000 stock options to a consultant with an exercise price of \$0.49. The options will vest in equal tranches on November 5, 2020, and February 5, May 5 and August 5, 2021. These options are set to expire on August 5, 2023.
- 11,240 stock options to three employees under the stock option plan with an exercise price of \$0.52. The options will vest in equal tranches on November 5, 2021, 2022 and 2023 and will expire on November 5, 2024.

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, 2020, there were 2,727,902 (2019: 2,665,432) common shares reserved for this purpose.

A summary of the Company's outstanding stock options as at December 31, 2020 and 2019 and changes during these years is presented below.

	2020		2019	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Outstanding, January 1	1,074,107	1.70	1,065,845	1.86
Options granted	926,540	0.57	421,275	1.51
Options expired	(627,314)	1.72	(413,013)	1.92
Outstanding December 31	1,373,333	0.93	1,074,107	1.70
Unvested options	1,059,518	0.78	612,217	1.52
Outstanding and exercisable, December 31	313,815	1.44	461,890	1.94

The exercise prices for options outstanding at December 31, 2020 were as follows:

Exercise price:	All options		Exercisable options	
	Number	Weighted average remaining contractual life (years)	Number	Weighted average remaining contractual life (years)
\$0.49	160,000	2.6	40,000	2.6
\$0.52	11,240	3.8	-	-
\$0.59	697,130	3.5	-	-
\$1.50	244,351	2.4	87,451	2.4
\$1.55	240,612	1.3	166,364	1.3
\$2.10	20,000	1.0	20,000	1.0
Total	1,373,333	2.8	313,815	1.8

The weighted average fair value of the options granted during the year that were valued using the Black-Scholes option pricing model was \$0.30 (2019: \$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:

	2020	2019
Risk-free interest rate	0.28%	1.39%
Expected life (years)	2.06	2.05
Volatility in the price of the Company's common shares	112%	53%
Dividend yield rate	0.00%	0.00%

<i>Warrants</i>	Number of warrants	Weighted average exercise price \$	Value \$
Outstanding January 1, 2019	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
Warrants exercised	(624,696)	0.60	(104,398)
Warrant modification	-	1.45	76,912
Warrants expired	(146,345)	0.60	(24,429)
Outstanding December 31, 2020	3,036,237	1.69	1,195,396

17. Loss per share

Basic loss per share

The calculation of basic and diluted loss per share for the year ended December 31, 2020 was based on a weighted average number of common shares outstanding of 26,677,439 (basic and diluted) (2019: 21,861,196 basic and diluted). The calculation of diluted earnings per share did not include outstanding stock options, warrants, nor convertible debentures for these years because they would be anti-dilutive.

18. 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 with a carrying amount of \$73,860, a leased building with a carrying amount of \$384,891, and non-current inventory with a carrying amount of \$615,100 located at FLYHT's offices in Littleton, CO.

	For the year ended December 31	
	2020	2019
	\$	\$
United States & Mexico	6,627,963	7,907,107
Asia	1,511,399	4,126,531
China	1,625,612	3,360,888
Middle East	903,656	1,999,975
Canada	1,539,009	1,612,114
Australasia	415,011	764,484
Africa	545,828	599,777
Europe	334,684	480,629
South/Central America	149,823	319,654
Total	13,652,985	21,171,159

The following shows revenue per major product and service categories.

	For the year ended December 31	
	2020	2019
	\$	\$
SaaS	7,323,125	10,246,685
Hardware	2,306,371	6,651,673
Licensing	3,630,874	3,241,285
Technical Services	392,615	1,031,516
Total	13,652,985	21,171,159

SaaS is the recurring revenue from the Company's products that allow 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 and arrangements for exclusive access to weather data sets. **Technical Services** includes services offered by the Company, including repairs and other expertise. The Company has not disclosed the 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. The undelivered amount of revenue related to contracted yet undelivered hardware and licenses for which a purchase order has been received is \$2,101,719 CAD.

Major customers

Revenues from the three largest customers represent approximately 44% of the Company's total revenues for the year ended December 31, 2020 (2019: 46%).

19. Other Income

	For the year ended December 31	
	2020	2019
	\$	\$
Subsidy recovery	806,913	4,126,573
Total	806,913	4,126,573

In 2018 FLYHT acquired the assets of PWS from Panasonic Avionics Corporation. Pursuant to a transition agreement between the parties, FLYHT received subsidies to offset the anticipated impact over the first 18 months following the asset acquisition (note 12).

20. Distribution expenses

For the year ended December 31

	2020	2019
	\$	\$
Salaries and benefits	4,460,350	5,889,166
Stock based compensation	27,208	38,346
Contract labour	765,169	637,992
Office	185,768	223,896
Travel	142,160	566,700
Equipment & maintenance	42,226	59,132
Depreciation	558,960	527,994
Marketing	92,734	116,703
Other government grants	(1,266,767)	-
Other	384,056	235,840
Total	5,391,864	8,295,769

Other government grants relate to amounts received from the Canadian government under the Canadian Emergency Wage Subsidy ("CEWS"), the Canadian Emergency Rent Subsidy ("CERS") and the Scientific Research and Experimental Development ("SRED") tax refund programs of \$1,307,338 CAD, \$29,872 CAD and \$141,372 CAD respectively, and to a US government loan forgivable under the US Paycheck Protection Program for an amount of \$585,235 USD. These government grants are included in Distribution, Administration and Research, development and certification engineering.

21. Administration expenses

For the year ended December 31

	2020	2019
	\$	\$
Salaries and benefits	2,342,232	2,004,409
Stock based compensation	120,924	101,328
Contract labour	470,549	399,400
Office	492,879	475,049
Legal fees	78,889	39,700
Audit and accounting	193,807	293,823
Investor relations	170,510	210,772
Travel	71,227	225,769
Equipment and maintenance	316,333	213,973
Depreciation	163,580	181,564
Other government grants (note 20)	(384,286)	-
Other	19,992	68,132
Total	4,056,636	4,213,919

22. Research, development and certification engineering expenses

For the year ended December 31

	2020	2019
	\$	\$
Salaries and benefits	3,341,024	3,203,141
Stock based compensation	11,754	13,889
Contract labour	433,854	255,994
Office	79,493	144,770
Travel	16,232	103,357
Equipment and maintenance	21,781	13,297
Components	30,315	16,904
Depreciation	145,778	131,860
Grant WINN loan (note 13)	(119,047)	(114,605)
Other government grants (note 20)	(623,248)	-
Other	306	907
Total	3,338,242	3,769,514

23. Finance income and finance costs

For the year ended December 31

	2020	2019
	\$	\$
Interest income on bank deposits	45,008	29,810
Gain on modification of government loans	419,682	-
Finance income	464,690	29,810
Bank service charges	29,529	29,942
Net foreign exchange loss	139,548	172,495
Interest on lease liability	134,246	91,977
Other interest expense	140	3,073
Government grant interest accretion	420,422	396,351
Debenture interest expense and accretion	254,571	256,780
Finance costs	978,456	950,618

24. Income tax expense

Current Tax Expense

	2020	2019
	\$	\$
Current income tax (recovery) expense	961	-
Deferred income tax (recovery) expense	-	-
	961	-

Deferred Tax Expense

Unrecognized deferred tax assets

	2020	2019
	\$	\$
Deferred tax assets have not been recognized in respect of the following deductible temporary differences:		
Capital assets and intangibles	1,374,147	1,290,889
Reserves and FX	381,362	1,463,184
Non-capital loss carry-forwards	39,648,247	37,009,398
Share issue costs	480,830	69,018
Scientific research and experimental development expenditures	24,279,134	34,424,226
Total	66,163,720	74,256,715

The Company has non-capital losses for income tax purposes of approximately \$39,648,247 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. Of these losses, \$792,832 were incurred in the US and do not expire. The remaining losses were incurred in Canada and will expire as follows:

Year	Amount
	\$
2027	4,641,378
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
2040	2,460,246
Total	38,855,415

Reconciliation of effective tax rate

	2020	2019
	\$	\$
Income (loss) before tax	(3,236,496)	(746,640)
Tax Rate	24%	26.5%
Expected income tax recovery	(776,759)	(197,860)
Change in rate	(109,876)	2,127,613
Non-deductible (taxable) amounts	(183,478)	16,649
Stock based compensation	38,372	40,694
Change in unrecognized temporary differences	1,032,702	(1,987,096)
	961	-

The Alberta corporate tax rate decrease was accelerated to 8% effective July 1, 2020.

25. 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 30% (2019: 18%) of the Company's 2020 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 expected losses.

The aging of receivables at the reporting date was:

December 31, 2020	0-30 days	31-60 days	61-90 days	91+ days	Total
	\$	\$	\$	\$	\$
Accounts receivable	1,039,501	213,945	169,724	1,167,679	2,590,849
Impairment	(98,421)	(58,761)	(51,364)	(795,028)	(1,003,574)
Net receivable	941,080	155,184	118,360	372,651	1,587,275
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

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, 2020 and 2019 was:

	2020	2019
	\$	\$
Balance, January 1	544,880	296,143
Provision	512,496	307,592
Recovered	(43,311)	(58,472)
Amounts written off	(10,491)	(383)
Balance, December 31	1,003,574	544,880

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, 2020	< 2	2-12	1-2	2-5	> 5 years	Total
	months	months	years	years		
	\$	\$	\$	\$	\$	\$
Accounts payable	1,120,306	-	-	-	-	1,120,306
Compensation and statutory deductions	491,401	429,293	-	-	-	920,694
Accrued liabilities	87,941	-	-	-	-	87,941
Lease payments	199,546	480,269	370,591	820,825	1,511,590	3,382,821
Loans and borrowings	235,820	2,334,476	1,201,697	2,119,770	1,585,051	7,476,814
Total	2,135,014	3,244,038	1,572,288	2,940,595	3,096,641	12,988,576

Refer to note 2(d) 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 \$135,861 (2019: \$211,135) and a strengthening of the Canadian dollar would decrease net earnings by approximately \$135,861 (2019: \$211,135).

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, 2020, working capital denominated in U.S. dollars was approximately positive \$1,891,678 (2019: positive \$3,587,151). As a result, a 1% weakening of the Canadian dollar would increase net earnings by approximately \$18,917 (2019: \$35,872) and a strengthening of the Canadian dollar would decrease net earnings by approximately \$18,917 (2019: \$35,872).

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, 2020 and 2019 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 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.

26. Related parties

A company related to an officer of FLYHT provided marketing services in Q4 2020. All of the transactions with the related party were at terms equivalent to those that prevail in arm's length transactions and were supported by a third party receipt.

	For the year ended December 31	
	2020	2019
	\$	\$
Amounts included in:		
Contract labour	22,575	-
Accounts payable	10,895	-

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:

	2020	2019
	\$	\$
Salary	1,219,967	1,150,794
Director fees	202,588	220,277
Variable compensation	54,250	287,467
Retiring allowance	451,390	41,079
Share-based payments	88,940	83,857
Short-term employee benefits	84,968	74,946
Total	2,102,103	1,858,420

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%

27. 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 they have now moved to issuing three-year grants to Iridium 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.

28. Subsequent Event

A further amendment was made on March 25, 2021 to the Company's contribution agreement with Western Economic Diversification Canada under the WINN loan agreement originally signed in November 2018. Amended terms extend the timeframe for eligible project cost submission from September 30, 2021 to September 30, 2023 and adjust the repayment start date from October 1, 2021 to October 1, 2023.

29. Contingent liability

As announced on June 30, 2020, the Company received a statement of claim from Thomas R. Schmutz (former Chief Executive Officer of FLYHT) in the amount of \$525,000 CAD in relation to the termination of his employment with the Company. The financial results include a provision based on management's best estimate of the expected costs to settle the matter, which is less than the amount of the statement of claim.

CORPORATE INFORMATION

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Shares are traded on the TSX Venture Exchange (TSX.V: FLY) and the OTCQX Marketplace (OTCQX: FLYLF)

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President, General Aero Company
Director
Partner, Nanaimo Law
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