ANNUAL REPORT **2021**

FLYHT AEROSPACE SOLUTIONS LTD.

FLYHT™
INSIGHT • ACTION • CONTROL

Table of Contents

COMMONLY USED FINANCIAL TERMS AND AVIATION ACRONYMS

ABOs: Aircraft Based Observations
ACARS: Aircraft Communications Addressing and Reporting System
ACMS: Aircraft Condition and Monitoring System
ADS-C Automatic Dependent Surveillance - Contract
AID Aircraft Interface Device
AFIRS™: Automated Flight Information Reporting System
AHM: Aircraft Health Monitoring
AMDAR: Aircraft Meteorological Data Relay
ANAC: National Civil Aviation Agency of Brazil
APU: Auxiliary Power Unit
BDC: Business Development Bank of Canada
CAAC: Civil Aviation Administration of China
CARES: The Coronavirus Aid, Relief, and Economic Security Act
CERS: Canada Emergency Rent Subsidy
CEWS: Canada Emergency Wage Subsidy
CPDLC Controller Pilot Data Link Communications
DAO: Design Approval Organization
DGAC: Direccion General de Aeronautica Civil (Mexico's certification organization)
EASA: European Aviation Safety Agency
EBITDA: Earnings before interest, taxes, depreciation and amortization
ECAA: Egyptian Civil Aviation Authority
EFB: Electronic Flight Bag
FAA: Federal Aviation Administration
FANS Future Air Navigation System
FDR: Flight Data Recorder
FlightLink™: An Iridium Satellite Data Unit
GAAP: Generally Accepted Accounting Principles
GAMECO: Guangzhou Aircraft Maintenance Engineering Company Limited
HASCAP: Highly Affected Sectors Credit Availability Program
IATA: International Air Transport Association
ICAO: International Civil Aviation Organization
IFRS: International Financial Reporting Standards
MD&A: Management Discussion and Analysis
MRO Maintenance, Repair, and Overhaul
OEM: Original Equipment Manufacturer
PAC: Panasonic Avionics Corporation
PPP: Paycheck Protection Program
PWS: Panasonic Weather Solutions
QAR: Quick Access Recorder
QTD: Quarter-to-date
R&D: Research and Development
RPK: Revenue Passenger Kilometers
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
WVSS: Water Vapour Sensing System
YTD: Year-to-date

LETTER TO SHAREHOLDERS

The past year was one of tremendous strategic and operational progress for FLYHT as we navigated another challenging year for both FLYHT and the aviation industry. We advanced our efforts to build one of the industry's premier platforms for Actionable Intelligence, creating multiple, durable revenue streams and positioning the company as a trusted, critical, value-adding partner for a growing list of customers. We are well positioned to serve our customers as they see more normalized flight activities across their businesses and around the world.

At FLYHT, we have taken an aggressive approach to being prepared to help our partner customers with that recovery. We have made several strategic investments that we believe are going to be beneficial to the company and our shareholders in the months, quarters and years to come. We have taken our traditional products and services and positioned them to anticipate the industry's evolving needs. We do not capitalize those investments, so they appear as losses on our financial statements, however, these strategic initiatives have set FLYHT up for significant wins.

At the start of last year, we assembled a team to take advantage of our Amazon Web Services relationship, both as a customer of AWS and a partner in their industry steering group. We certified a team of 25 developers, deployed and enhanced a set of tools that we had developed, and we created new tools to become an AWS Certified Partner in the Travel and Hospitality group. Approximately 50% of our research and development costs were invested in recruitment, training, and certification of on the AWS toolset and product certification aircraft in anticipation of the sales of AFIRS Edge. a cornerstone of the solutions that we will be providing to our customers for years to come, and our sales team is working closely with the AWS sales group to identify and close opportunities in this space.

We have previously stated that to better succeed in the aviation industry FLYHT needs to grow, with more products and better geographic representation. This was accomplished with the acquisition of CrossConsense in early 2022, which brings us a new maintenance capability and meaningfully expands our footprint in Europe, not to mention an enviable list of customers. We expect due diligence costs $250k, staff efforts approaching a similar level, and the acquisition price to start producing results directly following the March 17 closing date. Our teams are already cross-selling and working on products with a launch customer in pursuit of the great synergies we see coming from this relationship. Beyond CrossConsense, we continue to investigate other non-organic growth opportunities that will drive our SaaS-focused growth strategy.

We recently announced a partnership with SITA, the largest provider of ACARS data in the world and a very strong player in airport systems and other airline related products. This initial announcement described how we will be using their relationship with Iridium to secure preferred pricing on Certus connectivity for our Edge product. The intent is to significantly grow this relationship with services and tools that we can deliver on our exciting new platform.

The development of the AFIRS Edge has been an exciting project. We have repurposed large portions of the AFIRS IP on a light weight, cost-effective platform that has the capability to drive many more functions for our customers while keeping the reliability and serviceability of the AFIRS family. This platform delivers unprecedented capabilities to provide a replacement for the old 2G-3G systems installed on 4,000+ aircraft with a device that supports 3G, 4G and 5G, Iridium Certus, Bluetooth, Wi-Fi, and connection through virtual and in-flight entertainment systems. Due to our ability to repurpose AFIRS IP, development costs to date for this product are at $750k. We have received government support on the program and market acceptance is strong. We have initial production units in house and are working on STC's for launch customers as this is written.

As part of our transition to a more SaaS-driven model, we invested in training staff and building teams to take advantage of adopting agile development principles and get the most benefit out of the AWS tool set for our customers to take advantage of the security and speed of this state-of-the-art Cloud environment.

We are confident that FLYHT's strategic investments this past year will show results in 2022 as we continue to return to normal levels of activity with our customers. We have proven technology and solutions, a talented team, long-standing relationships with our customers who we have supported throughout the pandemic, and partners that are providing the right tools to support the industry.

As always, I want to thank our loyal shareholders and our incredible staff, and I want to assure our customers that we are here to support them as they get back to business.

Yours Truly,

William T. Tempany
Interim Chief Executive Officer

MANAGEMENT DISCUSSION & ANALYSIS

This management discussion and analysis ("MD&A") is as of April 6, 2022 and should be read in conjunction with the audited annual consolidated financial statements of FLYHT Aerospace Solutions Ltd. ("FLYHT" or the "Company") as at and for the years ended December 31, 2021 and 2020 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, 2021 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[1], and earnings before interest, income tax, depreciation and amortization (EBITDA[2]). 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. Working capital can be used to assess a company's liquidity, operational efficiency, and short-term financial health. EBITDA can be used to analyze and compare profitability among companies and industries, as it eliminates the effects of financing and capital expenditures. 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 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, and delivers industry leading solutions to improve aviation safety, efficiency, and profitability. This unique capability is driven by a suite of patented aircraft certified hardware products. These include AFIRS™, an aircraft satcom/interface device, which enables cockpit voice communications, real-time aircraft state analysis, and the transmission of aircraft data while inflight. The AFIRS Edge is a state-of-the-art 5G Wireless Quick Access Recorder (WQAR), Aircraft Interface Device (AID), and Aircraft Condition and Monitoring System (ACMS). The Edge can be interfaced with FLYHT's TAMDAR probe or the FLYHT-WVSS-II relative humidity sensor to deliver airborne weather and humidity data in real-time.

FLYHT is headquartered in Calgary, Canada, and is an AS9100 Quality registered company. For more information visit www.flyht.com.

1. Actionable Intelligence Solutions

FLYHT continues to drive economic value for our customers, our investors, and our employees. Actionable Intelligence solutions maximize customers' efficiency, reliability, ease of use, flexibility, and cost benefits. This industry differentiator provides not only economic value but also opportunities for customers and FLYHT to realize environmental, social, and corporate governance goals.

Innovative technology solutions use the data collected by the AFIRS avionics systems to provide valuable business intelligence for aircraft operators to use in streamlining and optimizing operations and proactively enhancing safety.

Cloud-based enterprise servers coordinate AFIRS data with external airline and airport systems. These external systems have many components aiding in aircraft operations, maintenance, and ground operations as well as flight planning and scheduling. The combination of this wide set of data sources allows for the creation of a data lake to which machine learning can be applied, allowing FLYHT to provide customers with Actionable Intelligence solutions.

FLYHT continues to add to the suite of Actionable Intelligence solutions, powered by JetBridge, providing SaaS (Software as a Service). While every Actionable Intelligence solution will thrive with real-time inputs from an AFIRS unit, the broader approach to incorporate third-party inputs allows FLYHT's products to be leveraged in any airline environment.

WQAR

As 2G/3G/LTE cellular networks around the world are decommissioned, FLYHT's AFIRS Edge provides a seamless transition to WQAR (Wireless Quick Access Recorder) file transmission over the new 5G networks. 5G networks allow for a significant increase in data volumes transmitted from an aircraft, enabling additional SaaS and Actionable Intelligence solutions to be implemented. As these become available FLYHT can provide immediate access for airlines to maximize benefits of the new networks, setting up airlines for long term capability. QAR data forms one of the foundations for the Actionable Intelligence solutions that FLYHT provides.

SaaS opportunities to enhance airline operational control and decrease airline costs are derived from QAR recordings and wireless distribution functions, by expanding data harvesting that is fully under airline control.

Aircraft Interface Device

AFIRS Edge provides AID functions to supply an aircraft's own data to the flight deck for EFB applications. By conforming to the ARINC 834 standard, own-ship information is transmitted from the AFIRS Edge to Actionable Intelligence applications running on the flight deck. Whether airlines run their own EFB applications or run third party programs they will always have access to the rich set of aircraft data provided by the AFIRS Edge.

The AFIRS Edge AID functions are easily and remotely configurable. As airlines update or add new EFB applications the need for new aircraft data points will arise. By remotely updating the AID service of the Edge, new Actionable Intelligence solutions can be enabled on the flight deck without personnel having to individually update each aircraft in a fleet.

FleetWatch

An airline's fleet situational awareness remains a primary objective of any Operations Control Centre (OCC). FLYHT's FleetWatch provides a configurable fleet wide situational awareness platform. In addition to taking direct inputs from any AFIRS unit, FleetWatch can incorporate third-party inputs as part of its situational display.

Unlike traditional Aircraft Situational Displays, FleetWatch incorporates the concept of Actionable Intelligence into its design. The primary user interface is not only a source of real-time aircraft position and state but is also a tool for OCCs to receive Actionable Intelligence information. Information relevant to the efficient operation of an airline is directly displayed in FleetWatch.

Airline operations that need immediate attention or that require direct action from staff can be displayed on the FleetWatch main page. By providing this real-time display with meaningful information, airline staff are immediately notified when situations requiring their attention are identified. From diagnosing a fault while airborne to instructing ground crews of unnecessary APU operation, FleetWatch will be a primary conveyor of Actionable Intelligence to our airline customers.

FuelSense

The FuelSense application provides insight to an airline's management and usage of fuel. By providing targeted guidance through impactful decision support, airline operational change can be achieved. Rather than relying on only historical data, FuelSense incorporates the concept of Actionable Intelligence to provide meaningful information to an operator. FuelSense Actionable Intelligence allows for such benefits as the minimizing of APU usage, the optimizing of flight planning procedures, and the identification of various unplanned events.

By incorporating the information made available from FuelSense into other FLYHT products, FuelSense becomes a generator of Actionable intelligence that can be shared with other JetBridge powered applications.

ClearPort

By providing a clear view into the status of an aircraft in a turn, ClearPort allows an airline to move beyond reporting of operational delays into a state where Actionable Intelligence can be used to manage and avoid situations that affect operations. By focusing on the problems and ignoring flights that are running smoothly, ClearPort draws attention to and provides options for ground crews to manage aircraft turns.

During a turn, critical above and below wing milestones provide an opportunity to assess the likelihood that the aircraft will be ready for an on-time departure. By providing Actionable Intelligence to the appropriate ground crew members in real-time, ClearPort identifies corrective action before a delay is encountered.

As a turn-key solution, ClearPort displays updated aircraft turn information without the need for costly integration with airline systems. This reduces the need for an airline's IT department involvement.

2. Airborne Hardware

AFIRS Edge™

The Edge is FLYHT's latest addition to the AFIRS hardware family and is delivered as an extensible multifunction avionics platform. The Edge's modular functionality allows different configurations and features to be implemented as an airline needs them. Communication options include 5G/4G/3G cellular capabilities, a modular Iridium Certus satcom, and the ability to incorporate with existing onboard broadband solutions.

AFIRS Edge turn-key applications include AID functionality (ARINC 834 compliant), a multi-channel wireless Quick Access Recorder, bulk aircraft system data acquisition and recording, and AFIRS analytics through our enhanced, customized ACMS.

The WQAR function of the AFIRS Edge provides an industry-first move towards 5G transmission of aircraft recorded FDR data. By using the most efficient method of data transfer off an aircraft, data volumes can be increased while cost of transmission decreases. The fully compliant 4G/3G features provide compatibility while existing ground cellular infrastructures are updated. With the future of 5G expected to last beyond 2040, the WQAR functions of the AFIRS Edge provide an opportunity for airlines to upgrade their WQAR capabilities in one move that will serve them for years.

The AFIRS Edge provides a configurable airborne platform for FLYHT to implement current and future Actionable Intelligence solutions for FLYHT's customers and the industry.

AFIRS™

The Automated Flight Information Reporting System (AFIRS) is a family of avionics installed on aircraft that captures and monitors hundreds of essential functions from the aircraft including data recorded by the FDR (the "Black Box"). AFIRS transmits this information in real-time through various technologies to FLYHT's servers, which use that data to power solutions such as displaying real-time fleet visualizations and providing fleet wide Actionable Intelligence.

In addition to data monitoring and flight tracking functions, the AFIRS family of products provides voice and text messaging capabilities in both safety services level security and regular satcom. The system supports many value-added solutions including tracking aircraft, fuel management and monitoring aircraft health as well as weather observations that include relative humidity data. FLYHT's real-time, global coverage is enabled through the Iridium satellite network, providing service to customers anywhere on the planet.

FLYHT has received regulatory certification for installation of AFIRS on most commercial aircraft types and models (see systems approvals section). The AFIRS 228S features cater to the evolving needs of airlines by providing a customizable and flexible product. FLYHT's in-house aircraft certification group allows for easy addition of new data sources to the reporting capabilities of AFIRS.

FLYHT's AFIRS 228S conforms to the Canadian Technical Standard Order (CAN-TSO) Design Approval, CAN-TSO-C159b.
The certification, granted by Transport Canada, represents an additional level of airworthiness standards met by AFIRS to provide safety services voice and data.

FLYHT's 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.

FLYHT's systems and solutions 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.

FLYHT-WVSS-II (Water Vapour Sensing System)

The FLYHT-WVSS-II is an externally mounted aircraft sensor that detects and reports water vapour as relative humidity. This relative humidity value is incorporated with other aircraft weather information to generate Aircraft Based Observations (ABOs) which can be fed to different weather models around the world.

ABOs are grouped together during the ascent and descent phases of a flight to generate soundings. By adding relative humidity to the standard AMDAR payload, FLYHT significantly increases the value of our weather data. A FLYHT-WVSS-II can be paired with an AFIRS 228 unit, or with an AFIRS Edge for transmission of weather sounding data in real-time.

As with AMDAR and TAMDAR soundings, FLYHT-WVSS-II enhanced ABOs are provided to government and private weather modeling systems around the world. Industry standardized and accepted formats for data transmission of weather data to these models is maintained.

TAMDAR

FLYHT's Tropospheric Airborne Meteorological Data Reporting (TAMDAR) system is a unique sensor device installed on aircraft that captures temperature, atmospheric 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-19 lockdowns) and continuous observations including all the metrics of radiosonde observations plus icing and turbulence.

Like the data traditionally gathered by weather balloons, 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 weather offices. The relative humidity data, gathered throughout an aircraft's flight, makes these weather soundings particularly valuable to meteorologists.

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 auxiliary hardware products provide both power and connectivity to the devices used by pilots to create a secure, reliable platform for Electronic Flight Bags (EFBs).

The AFIRS voice solution uses the Iridium satellite constellation with global coverage and an onboard satellite phone to provide a rapid and reliable private satcom communication channel to the flight deck. When operating remote or oceanic flights, this allows for communication between dispatch and crew with no delay. The voice capability is particularly valuable when operating in remote regions with little to no VHF/HF coverage.

FLYHT's communication solutions include long range satcom, as well as Air Traffic Safety (ATS) Services voice, providing a higher performance alternative to that of legacy High Frequency (HF) communications. AFIRS 228S TSO complies with the FAA Advisory Circular AC 20-150B as one of the two required Long Range Communication Systems (LRCS). The AFIRS 228S TSO is a TSO-C159b certified Iridium satcom solution providing the aircraft with reliable FANS 1/A, ADS-C, CPDLC and ACARS over Iridium messaging capabilities.

The AFIRS Edge includes 5G/4G/3G cellular capabilities, a modular Iridium Certus satcom, and the ability to incorporate with existing onboard broadband solutions.

ACQUISITION OF WVSS-II PRODUCT LINE

FLYHT acquired the WVSS-II product line from SpectraSensors Inc. in September 2021. The acquisition included manufacturing assets, inventory, aviation-specific intellectual property, and a license to SpectraSensors Inc.'s Tunable Diode Laser Absorption Spectroscopy ("TDLAS") technology for use in the weather and aviation markets. The WVSS-II product enhanced FLYHT's weather business by adding additional hardware, integration and recurring revenue sources to its existing TAMDAR and AMDAR programs.

The WVSS-II is a sensor installed on aircraft and provides water vapour measurements in real-time throughout an aircraft's flight. These observations directly benefit weather forecasting and improve weather support to aviation. There are broad use cases for WVSS-II data. Weather forecasters rely on WVSS-II data to help build models that determine the location and timing of fog, cloud formation, altitude of cloud ceilings, and precipitation types. These models are critical in determining safe conditions for aircraft travel. Beyond airlines, this data enables industry organizations to provide more accurate weather and climate forecasts leading to increased societal and economic benefits.

A NOAA study showed that these aircraft-based observations are critical for rapidly updating numerical weather prediction models and reducing numerical weather prediction forecast error up to 15-20%. These improvements have support savings for airlines by allowing them to avoid air traffic delays, which have raised annual airline operating costs by over $8 billion in the U.S. alone. Weather accounts for 70% of all air traffic delays within the U.S. National Airspace, and almost two-thirds of these delays are potentially avoidable.

The WVSS-II product line was purchased by FLYHT from SpectraSensors Inc. for $500,000 USD.

SYSTEM APPROVALS

FLYHT 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. 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), the 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's expertise in airworthiness certification allowed the Company 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 lessens application wait times and reducing costs 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 can take considerable 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 new national regulator, FLYHT submits an application to the new regulator such as the FAA or EASA with the STC data package previously approved by TCCA. The new 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 to obtain TCCA approval, with an additional three to eight months if an STC is required from an additional regulator.

STC Chart: AFIRS 220 and 228

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	ATR72-100, -200
					A*					ATR42-500 "600 Version" *STC Twenty One
					A*					ATR72-212A "600 Version" *STC Twenty One
A		A		A		A				Boeing B737-200
A	A	A	A	A	A	A	A		A	Boeing B737-300, -400, -500
A	A	A		A		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 B777-200, -300
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			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 ERJ 190-100
		A								Embraer Legacy 600 and ERJ–135, -145

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). FLYHT has also received an AFIRS 228 STC validation from CAAM (Civil Aviation Authority of Malaysia) for the Boeing 767-200, -300.

STC Chart: TAMDAR

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

STC Chart: AFIRS Edge

TCCA Canada	FAA USA	EASA EU	CAAC China	ANAC Brazil	
I					Boeing B737-600, -700, -800

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

Trends and Economic Factors

FLYHT examines the results of measurements made by leading aviation associations and corporations in order to gain insight into the status of the industry. Many commercial airlines and aircraft leasing organizations continue to face extreme stress due to the COVID-19 pandemic. As airlines experience financial stress, so do suppliers to that industry, including FLYHT. For virtually all airlines, cash flow has been drastically reduced, and although it has impacted the airline industry's ability to pay for services and capital expansion, in some areas of the world such as North America things appear to be slowly improving. A few key points from 2021 and looking forward to 2022 are as follows[3]:

- The airline industry is recovering gradually from COVID-19, however 2021 Revenue Passenger Kilometers (RPK) were estimated to be only 40% of pre-crisis levels
- Airlines forecasted cost cuts of 31% in 2021 vs 2019. As the traffic recovery continues, airlines will face cost pressures driving operational efficiency solutions to be invested in and implemented as soon as possible.
- Air cargo has recovered above 2019 levels and is expected to be strong in 2022, as air freight volumes continue to increase.
- Vaccines will allow some governments to relax restrictions and support global travel reaching 61% of 2019 levels in 2022.
- Airline financial performance is expected to recover in all regions in 2022. North American airlines are expected to return to profitability in 2022.
- IATA is forecasting the industry's 2022 fuel bill to increase by 32% versus 2021, as the air travel rebound spreads into international markets.

The Aviation Industry in 2021

International Air Transport Association's (IATA) industry results[4], measured in Revenue Passenger Kilometers (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.

While air travel (measured in RPKs) had fallen in early 2021 from levels in December 2020, with January 2021 being 72% lower than in the pre-crisis month of January 2020, it has since increased throughout 2021 to 58.4% lower than in the pre-crisis month of January 2020. The setback in airlines' passenger business was driven by the tightening by governments of travel restrictions across the world, many of which remain in place following the emergence of COVID-19 variants. However, easing of these restrictions has contributed to the slight positive increase in RPK levels by the end of 2021. Travel restrictions across the world are loosening and slowly being lifted, supporting heightened optimism for further ongoing global air recovery.

The uneven rate of recovery in 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, as government travel restrictions continue to be modestly eased. The global air-travel recovery continued into 2021 year end as strong demand over the holiday season compensated for the Omicron related disruptions. Domestic rebound continued to rise in Q4 of 2021 despite a dip in August; and we are seeing 2022 forecasts that intra-Europe and Europe – North America travel will outpace Asia. Russia had the strongest rebound of domestic market throughout 2021, followed by Brazil, the US, China and finally Australia. International travel recovery continues to be slower at -65% to -72% (depending on geographical region) lower for full year 2021 vs. full year 2019[5].

The air cargo business, in contrast to the state of the air passenger business, continues to flourish. Growth in industry-wide cargo tonne-kilometres (CTKs) rebounded in December, to 8.9% above December 2019, up from 3.9% from November. In 2021 overall, air cargo volumes rose by 18.7% year-on-year, and volumes were 3.5% above the pre-crisis 2018 peak[6]. 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).

Aviation Today posted on January 12, 2022 that Airbus and Boeing reported their full-year 2021 commercial aircraft deliveries this week, with both of the manufacturers seeing increases over 2020 delivery activity[7]. Delivery total for Airbus includes 611 commercial aircraft in 2021, up from 566 in 2020, with Boeing's 2021 delivery total of 340 commercial aircraft more than double the 157 delivered in 2020. FlightGlobal reported aircraft manufacturer Embraer delivered a total of 141 aircraft last year, including 48 jets to the commercial sector, up from the 44 commercial airframes it handed over in 2020[8].

[3] https://www.iata.org/en/iata-repository/publications/economic-reports/airline-industry-economic-performance---november-2020---report/
[4] https://www.iata.org/en/iata-repository/publications/economic-reports/overview-of-air-transport-in-2021-and-recent-developments/
[5] https://www.iata.org/en/iata-repository/publications/economic-reports/air-passenger-monthly-analysis---december-2021/
[6] https://www.iata.org/en/iata-repository/publications/economic-reports/air-freight-monthly-analysis---december-2021/
[7] https://www.aviationtoday.com/2022/01/12/airbus-boeing-report-2021-commercial-aircraft-deliveries/
[8] https://www.flightglobal.com/air-transport/embraer-lifts-full-year-commercial-aircraft-deliveries/147645.article

FLYHT's Market

Aircraft and the crews on-board represent extremely high value assets for air operators, and despite their value these assets have a legacy of being the most remote and disconnected assets of almost any business. Compared to most other industrial or transport businesses and despite advances in Industrial Internet of Things (IIoT) technologies, airline operational connectivity and integration between the aircraft assets and ground based systems and processes are still very limited and largely based on old technologies. Aircraft are flying assets containing many high value components and mobile workers that collectively generate vast amounts of operational data. Due to the legacy inflexible technologies deployed on many aircraft, including on recent models, it has been and remains problematic for airlines to make the best use of data from their airplane assets in pursuit of maintenance improvements and operational excellence.

On the ground, FLYHT's Actionable Intelligence provides airlines with a sophisticated toolset allowing the Company an opportunity to further expand into artificial intelligence opportunities. Actionable Intelligence provides insight into 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 the profitability of their operations, improving customer satisfaction with better on time performance and allows for empowered employees who are able to solve problems on the spot. Airlines need to align the passenger experience, airline operations and positive working environment for enhanced profit opportunity, supported by a seamless technology partnership.

On the aircraft, FLYHT provides 4G and 5G airport surface data communications, Iridium Certus real-time IP communications, global voice and data flight deck communications, while still supporting and interfacing with other data channels on the aircraft including the legacy technologies still in use. This means FLYHT customers can move larger amounts of sensor data off the aircraft while in the air, in real-time or on the ground post flight, and value can be more quickly realized from the data on board. This data value is achieved via the AFIRS Edge on-wing computing platform, or on the ground in the cloud via the JetBridge platform, feeding Actionable Intelligence applications, as well as making it easy for data to be consumed by other value generating applications and services used by the airline on the ground or onboard Electronic Flight Bags.

FLYHT's primary market are commercial passenger and air freight transport operators who seek safer, more efficient and more reliable operations through making better use of available data, connectivity and information technologies. While competitors offer various point solutions to address one or some of the challenges airlines face, FLYHT offers a unique and wide-ranging combination of avionics hardware, services and SaaS solutions that leverage the latest technologies available. FLYHT's target airline market size is increasing; traditionally FLYHT has focused on smaller airlines, however due to the new AFIRS Edge and JetBridge platform technologies the target market is now expanding to airlines of all sizes including Tier 1 and 2 major operators.

An expanding secondary market for FLYHT is the world's meteorological agencies and weather services providers. FLYHT enables its weather data customers to work with airlines to implement FLYHT's weather systems and solutions. FLYHT is the only provider that enables the full suite of Aircraft Based Observations, uniquely including water vapour humidity data that enables enhanced weather forecasting capabilities. The resulting predictive weather intelligence can also help airlines avoid disruptions and fly more efficiently by updating flight plans to avert weather systems that may impact fuel consumption and flight comfort, as well as costly re-routing for airport closures or planning for ground support and gate shutdowns due to severe weather.

Foreign Currency

The Canadian dollar weakened relative to the U.S. dollar throughout most of 2021 and the Company experienced a resulting positive impact to net income compared to 2020. As a result of these currency movements, the Company's revenues, which are substantially all denominated in U.S. dollars, were higher than they would have been had the foreign exchange rates not changed throughout 2021. It is the standard of the aviation industry to conduct business in U.S. dollars. While most 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. FLYHT's data capabilities can also support airlines in meeting their environmentally related regulatory filing requirements, such as CORSIA and EU ETS.

More recently, FLYHT has been focused on helping our customers improve their environmental impact by optimizing their use of aircraft and ground infrastructure for efficiency and safety. The FuelSense product provides support to make policy improvements and justified performance-based maintenance activities. With the addition of exception based real-time notifications to frontline personnel, FLYHT's customers can mitigate the negative impact of inefficiencies as situations develop. A showcase program for 2022 will be FLYHT's partnership with Swoop Airlines to reduce emissions by eliminating non-essential APU usage.

FLYHT's corporate policies are dedicated to improving efficiency in our use of resources and staying abreast of the UN's Sustainable Development Goals. The Corporation's products will support the industry's commitment to attain and measure Net Zero 2050 in a couple of key areas: increased operational efficiency and reduction of emissions. Measurable impacts internal to FLYHT since 2017 include an 80% reduction in our operation's reliance on paper and the diversion of over 50 computers, 2 servers, and 100 monitors from landfills to be repurposed for those in need in the local community. In addition, FLYHT has shifted to increased virtualization, relying on AWS data centers which operate with 65% renewable energy as well as utilizing more efficient services and facilities to reduce consumption of non-renewable energy.

FLYHT's focus on product quality, continuous improvement, data security, and safety has been consistent and has been of the utmost importance to the success of the Company and its products. The ever-changing security landscape has renewed the need to focus on our procedures and processes to mitigate risk and ensure security, resulting in several initiatives throughout 2021 and planned for 2022.

FLYHT is committed to providing a workplace that is diverse, inclusive, and welcoming. Responsible recruitment, increased flexibility, and balance as well as training and development opportunities have resulted in creating an environment that fosters engaged contribution, innovation, and collaboration. Improvements in diversity can be seen over the past two years and can be measured from entry level to the executive team and Board of Directors. Providing a 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.

2021 Contracts, Achievements and Activities

Contracts

FLYHT received US$7.2 million in new sales contracts and purchase orders in 2021. These contract totals 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 resulting from subsequent events after these disclosures. These contracts and purchase orders included:

- A five-year agreement was signed with Frontier Airlines to install AFIRS on their A320 and A321 aircraft, with this initial order valued at US$680 thousand
- Signed a multi-year contract with Commercial Aircraft Corporation of China, Ltd. ("COMAC") for the installation of AFIRS 228 on the COMAC C-919 aircraft, and received an initial purchase order valued at US$98 thousand
- A follow-on order from a long-time OEM partner for US$1.5 million in Iridium modems and license fees, for delivery throughout the second half of 2021 and the first quarter of 2022
- An agreement valued at US$3.6 million with a major Chinese cargo operator to equip up to an additional 15 aircraft per year over the next five years
- An agreement with Waltzing Matilda Aviation's new brand, Connect Airlines, to install AFIRS and AI services on their fleet of DHC-8-Q400 turboprop aircraft, valued at US$1 million over the agreement's five-year term
- A follow-on order from a long-time OEM partner for US$338 thousand in Iridium modems and license fees, for delivery in the third quarter of 2021

Achievements & Activities

- Warrant extension obtained, with an extension to June 2022 and adjusted exercise price of $1.25
- Kent Jacobs, the first employee of FLYHT, promoted to company President
- Acquisition from SpectraSensors Inc. of the WVSS-II (water vapour sensing system) hardware and intellectual property
- Repayment in full of outstanding secured convertible debenture of $1.8 million
- Closed a non-brokered private placement of $6.6 million to facilitate corporate growth initiatives
- Nina Jonsson was named Chairman of the Company's board of directors
- Incentive stock options for an aggregate 434,555 common shares were granted to employees, officers and directors under the stock option plan approved at the Annual and Special meeting held on May 6, 2021
- Industry veteran Willie Cecil joined FLYHT as Sales Director
- FLYHT launched sales of AFIRS Edge, an industry leading LTE/5G Wireless Quick Access Recorder (WQAR), Aircraft Interface Device (AID) product and edge computing platform

Results of Operations

Selected Results

	Q4 2021 $	Q3 2021 $	Q2 2021 $	Q1 2021 $
Assets	13,250,186	14,675,428	11,181,967	12,773,454
Non-current financial liabilities*	5,920,735	4,948,252	5,018,668	4,635,956
Revenue	2,527,961	3,173,331	2,926,122	2,691,275
Cost of sales	1,276,348	1,010,084	1,393,065	1,169,621
Gross profit	1,251,613	2,163,247	1,533,057	1,521,654
Gross profit %	49.5%	68.2%	52.4%	56.5%
Distribution expenses	969,992	1,000,059	896,024	1,003,667
Administration expenses	1,086,536	786,699	741,109	769,365
Research, development and certification engineering expenses	1,119,319	1,359,405	1,048,841	919,636
Results from operating activities	(1,924,234)	(982,916)	(1,152,917)	(1,171,014)
Depreciation	179,234	170,950	172,306	170,398
Other income	-	-	-	-
EBITDA[2]	(1,745,000)	(811,966)	(980,611)	(1,000,616)
Income (loss)	(2,444,054)	(1,107,195)	(1,395,889)	(912,068)
Income (loss) per share (basic)	(0.08)	(0.03)	(0.05)	(0.03)
Income (loss) per share (diluted)	(0.08)	(0.03)	(0.05)	(0.03)
	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 profit	1,893,123	1,328,035	2,066,311	3,969,630
Gross profit %	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[2]	(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)	(0.07)	(0.06)	(0.01)	0.02
Income (loss) per share (diluted)	(0.07)	(0.06)	(0.01)	0.02

**See Non-GAAP Financial Measures*

Weighted Average Shares Outstanding

	2021 $	2020 $	2019 $
Basic	31,415,175	26,677,439	21,861,196
Diluted	31,691,451	28,457,009	22,028,060

Financial Position

Liquidity and Capital Resource

The Company's cash and cash equivalents at December 31, 2021 decreased to $4,520,591 from $5,127,963 at December 31, 2020. The Company has an operating demand loan available through a Canadian chartered bank for up to a maximum of $1.5 million, 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 accounts receivable, cash collateral in the form of a Guaranteed Investment Certificate, 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 at December 31, 2021.

The Company funded operations throughout 2021 primarily through proceeds from cash received from a non-brokered private placement, the proceeds from cash received from sales, and funding obtained from the CEWS and CERS governmental programs. WINN funding typically received each quarter was delayed in Q3 2021 and was instead received in early Q4 2021. The Company will strive to self-fund operations throughout 2022.

	December 31, 2021 $	**December 31, 2020** $	**Variance** $
Cash and cash equivalents	4,520,591	5,127,963	(607,372)
Trade and other receivables	1,590,473	1,587,275	3,198
Contract assets	151,616	187,892	(36,276)
Deposits and prepaid expenses	377,688	544,052	(166,364)
Inventory	1,683,006	1,561,959	121,047
Trade payables and accrued liabilities	(1,703,309)	(2,128,941)	425,632
Customer deposits	(609,555)	(492,679)	(116,876)
Loans and borrowings	(664,470)	(2,376,594)	1,712,124
Lease liability	(373,756)	(679,816)	306,060
Working capital[1*]	**4,972,284**	**3,331,111**	**1,641,173**

**See Non-GAAP Financial Measures*

As at April 6, 2022 FLYHT's issued and outstanding share capital was 38,316,876.

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 continuing to manage outgoing cash flows. The Company's results showed losses from operating activities in both 2021 and 2020. At December 31, 2021, the Company had positive working capital[1] of $4.9 million compared to positive $3.3 million as of December 31, 2020, an increase of $1.6 million. The Company ended Q4 2021 with balances of $4.5 million in cash and cash equivalents, an undrawn credit facility of $1.5 million, and $947 thousand 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 customers and prospects without requisite capital expenditures by them and thereby return to the Company's core benefit to 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 and throughout 2021 that recovery varied due to the subsequent waves of the pandemic impacting several parts of the world, and the impact of the latest variants. There is continued risk until such a time as the industry recovers.

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[1] 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 at December 31, 2021.

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, which has been reflected in the bad debt reserve throughout 2020 and 2021, with a reduction to the reserve in 2021 as airlines start their return to normal operations, and as improvements have been seen in collections of outstanding receivables throughout the year and in recoveries of reserved amounts at December 31, 2020. As at April 6, 2022 $1,171,132 of the balances outstanding at December 31, 2021 had been collected.

Contractual Obligations

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

December 31, 2021	< 1 year $	1-2 years $	2-5 years $	> 5 years $	Total $
Accounts payable	990,053	-	-	-	990,053
Compensation and statutory deductions	309,082	-	-	-	309,082
Accrued liabilities	404,174	-	-	-	404,174
Lease payments	402,689	309,788	985,759	1,451,889	3,150,125
Loans and borrowings	675,534	851,387	3,422,303	1,420,325	6,369,549
Total	**2,781,532**	**1,161,175**	**4,408,062**	**2,872,214**	**11,222,983**

Government Loans

Funding obtained via four governmental programs are included in the Loans and Borrowings totals on the SFP.

Under the Strategic Aerospace and Defence Initiative (SADI), at December 31, 2021 the Company has an outstanding repayable balance of $1,212,427. 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. Repayment of $157,820 was made in 2021 (2020: nil). The carrying value of the amount owing under this program at December 31, 2021 is $1,306,656 (December 31, 2020: $1,262,090).

In November 2016, the Company signed a contribution agreement with Western Economic Diversification Canada for a 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 adjusted the payment dates due to COVID-19, so that there were no payments scheduled from April through December 2020 and the final payment date was pushed back to September 2025. Repayments in 2021 totaled $468,000 (2020: $117,000). The carrying value of the amount owing under this program at December 31, 2021 is $1,472,209 (December 31, 2020: $1,780,731).

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 this 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, repayable over five years commencing October 1, 2021. Amendments in 2021 extended the timeframe for eligible project cost submission to September 30, 2023 and adjusted the repayment start date to October 1, 2023. At December 31, 2021, the Company had received contributions totaling $1,813,632 (December 31, 2020: $788,262). The carrying value of the amount owing under this program at December 31, 2021 is $1,455,540 (December 31, 2020: $689,849).

In May 2021, the Company received funding of $250,000 through the BDC's HASCAP loan program, designed to support small and medium sized businesses affected by COVID-19. This loan carries interest of 4% per annum over a 10-year term commencing May 10, 2021. Payments in the first year following funding are comprised of interest only, with the principal and accrued interest payable over the remaining 9 years. The carrying value of the amount owing under this program at December 31, 2021 is $221,881 (December 31, 2020: nil).

A summary of the carrying value of the government loans as at December 31, 2021 and 2020 and changes during these three and twelve months is presented below.

	For the three months ended December 31			For the year ended December 31		
	2021 $	**2020 $**	**Variance $**	**2021 $**	**2020 $**	**Variance $**
Opening Balance	3,652,584	3,723,158	(70,574)	3,732,670	3,343,497	389,173
Received	529,084	149,733	379,351	1,275,370	624,480	650,890
Grant Portion	(162,266)	(30,091)	(132,175)	(277,169)	(119,047)	(158,122)
Interest accretion	120,553	86,152	34,401	442,036	420,422	21,614
Gain on payment deferral	439,194	(196,282)	635,476	(84,938)	(419,682)	334,744
Repayment	(122,863)	-	(122,863)	(631,683)	(117,000)	(514,683)
Carrying amount at December 31	**4,456,286**	**3,732,670**	**723,616**	**4,456,286**	**3,732,670**	**723,616**
Less current portion	664,470	720,534	(56,064)	664,470	720,534	(56,064)
Non-current portion	3,791,816	3,012,136	779,680	3,791,816	3,012,136	779,680

Convertible Debenture

The Company issued debentures with a face value of $2,000,000 on July 24, 2018. These debentures matured on July 24, 2021 and bore interest at a rate of 8% per annum, which was accrued and paid annually in arrears. All debentures that were not converted prior to maturity were repaid in full on July 23, 2021, including all outstanding secured convertible debentures (CAD$1.7 million) and all accrued and unpaid interest.

The Debentures were secured against all personal property of the Company and were 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, 2021 and 2020 and changes during these three and twelve months is presented below.

	For the three months ended December 31			For the year ended December 31		
	2021 $	**2020 $**	**Variance $**	**2021 $**	**2020 $**	**Variance $**
Opening Balance	-	1,591,688	(1,591,688)	1,656,060	1,535,438	120,622
Amortization of issue costs	-	6,103	(6,103)	18,299	24,279	(10,679)
Accrued interest	-	58,269	(58,269)	133,949	230,292	(91,644)
Debenture Retirement	-	-	-	(1,674,359)	-	(1,674,359)
Interest paid	-	-	-	(133,949)	(133,949)	-
Carrying amount at December 31	**-**	**1,656,060**	**(1,656,060)**	**-**	**1,656,060**	**(1,656,060)**
Less current portion	-	1,656,060	(1,656,060)	-	1,656,060	(1,656,060)
Non-current portion	-	-	-	-	-	-

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, 2021 and 2020. Payments were received for 9 installation kits in the fourth quarter of 2021 compared to 25 received in the fourth quarter of 2020. For the year ended December 31, 2021 payment has been received for 57 kits, compared to 44 in 2020.

	Q4 2021 $	Q4 2020 $	Variance $	YTD 2021 $	YTD 2020 $	Variance $
Opening balance	534,911	421,865	113,046	492,679	160,706	331,973
Payments received	493,195	1,090,871	(697,676)	2,029,607	2,810,118	(780,511)
Recognized as revenue	(418,551)	(1,020,056)	601,505	(1,912,731)	(2,478,144)	565,413
Balance, December 31	**609,555**	**492,679**	**116,876**	**609,555**	**492,679**	**116,876**

Comprehensive Loss

Revenue

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 2021 $	Q4 2020 $	Variance $	YTD 2021 $	YTD 2020 $	Variance $
SaaS	1,500,110	1,627,421	(127,311)	5,993,521	7,323,125	(1,329,604)
Hardware	590,975	1,490,709	(899,734)	3,394,228	2,306,371	1,087,857
Licensing	356,197	48,068	308,129	1,551,000	3,630,874	(2,079,874)
Technical Services	80,679	212,988	(132,309)	379,940	392,615	(12,675)
Total	**2,527,961**	**3,379,186**	**(851,225)**	**11,318,689**	**13,652,985**	**(2,334,296)**

For the year ended December 31, 2021, total revenue decreased 17.1% from $13,652,985 in 2020 to $11,318,689 in 2021. An indicator of the beginning of recovery from the financial impact of COVID-19 is the hardware revenue increase of 47.2% as compared to the last year. The Licensing revenue decrease of 57.3% reflects the typical pattern of inconsistent revenue timing in this category.

SaaS revenue decreased 7.8% in Q4 2021 over Q4 2020, and saw a decrease of 18.2% for the year, as customers' flight hours and active aircraft in some geographies have dropped again with the fourth wave of the pandemic, reflecting variances throughout both 2020 and 2021 resulting from uneven geographic, market segment recoveries and resulting impact. The pandemic low in SaaS billed to customers was experienced in Q2 2020.

Hardware revenue in 2021 saw an increase year over year of 47.2%, with the reopening of international travel and customer contracts moving forward with shipments of installation kits. There was a decrease in Q4 2021 as compared to Q4 2020 of 60.4% due to a difference in timing between quarters for hardware kit shipments. A total of 54 installation kits were shipped in 2021, compared to 34 in 2020.

Licensing revenue increased from Q4 2020, while showing a decrease YTD due to differences in the number of modems and associated license fees ordered for delivery in comparative periods.

Technical Services revenue had a decrease of 3.2% for 2021 compared to 2020, but a decrease of 62.1% in Q4 2021 as compared to Q4 2020. This revenue category can be expected to vary between periods and years, depending on the level of additional technical services provided to customers in each relevant period.

Revenue sources for the last eight quarters were:

	Q4 2021	Q3 2021	Q2 2021	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020
SaaS	1,500,110	1,507,366	1,446,221	1,539,825	1,627,421	1,652,001	1,305,049	2,738,654
Hardware	590,975	567,356	1,404,193	831,704	1,490,709	137,137	450,841	227,684
Licensing	356,197	1,004,698	7,924	182,181	48,068	86,033	1,233,096	2,263,677
Technical Services	80,679	93,911	67,784	137,565	212,988	43,239	71,171	65,217
Total	**2,527,961**	**3,173,331**	**2,926,122**	**2,691,275**	**3,379,186**	**1,918,410**	**3,060,157**	**5,295,232**

Geographical distribution of revenue sources were:

	Q4 2021		Q4 2020		YTD 2021		YTD 2020	
	$	%	$	%	$	%	$	%
United States & Mexico	984,455	38.9	1,163,945	34.4	4,428,683	39.1	6,627,963	48.5
Asia	211,676	8.4	464,192	13.7	602,743	5.3	1,511,399	11.1
China	474,510	18.8	410,182	12.1	2,051,290	18.1	1,625,612	11.9
Middle East	246,920	9.8	231,510	6.9	1,006,363	8.9	903,656	6.6
Canada	263,172	10.4	697,895	20.7	1,976,939	17.5	1,539,009	11.3
Australia	61,956	2.4	77,094	2.3	267,700	2.4	415,011	3.0
Africa	184,754	7.3	138,055	4.1	549,019	4.8	545,828	4.0
Europe	85,212	3.4	170,211	5.0	359,306	3.2	334,684	2.5
South/Central America	15,306	0.6	26,102	0.8	76,646	0.7	149,823	1.1
Total	**2,527,961**	**100.0**	**3,379,186**	**100.0**	**11,318,689**	**100.0**	**13,652,985**	**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 Q4 2021 was 50.5% compared to 44.0% in Q4 2020. Gross profit decreased due to the reserve taken for slow-moving items, which offset an increase due to differences in the mix of revenue sources in 2021 versus 2020. Gross profit will fluctuate quarter over quarter depending on the mix of revenue categories.

Gross profit for the last eight quarters was:

	Q4 2021	Q2 2021	Q2 2021	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020
Gross Profit %	49.5	68.2	52.4	56.5	56.0	69.2	67.5	75.0
Cost of Sales	50.5	31.8	47.6	43.5	44.0	30.8	32.5	25.0

Distribution Expenses (Recovery)

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

Major Category	Q4 2021	Q4 2020	Variance	YTD 2021	YTD 2020	Variance
	$	$	$	$	$	$
Salaries and benefits	766,055	872,747	(106,692)	3,294,529	4,460,350	(1,165,821)
Share based compensation	16,252	6,327	9,925	47,058	27,208	19,850
Contract labour	149,491	306,809	(157,318)	661,853	765,169	(103,316)
Office	50,704	20,244	30,460	231,233	185,768	45,465
Travel	43,502	15,795	27,707	107,017	142,160	(35,143)
Equipment and maintenance	9,796	6,322	3,474	39,147	42,226	(3,079)
Depreciation	95,240	112,568	(17,328)	365,120	558,960	(193,840)
Marketing	13,892	44,331	(30,439)	40,737	92,734	(51,997)
Government grants	(15,755)	(166,284)	150,529	(455,987)	(1,266,767)	810,780
Bad debt reserve	(159,185)	310,577	(469,762)	(460,965)	384,056	(845,021)
Total	**969,992**	**1,529,436**	**(559,444)**	**3,869,742**	**5,391,864**	**(1,522,122)**

Distribution expenses have decreased 36.6% from Q4 2020 to Q4 2021 and 28.2% year over year, due mainly to the reduction in labour costs as well as a decrease in bad debt reserve.

Salaries and benefits 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 was lower in 2021 compared to 2020, reflecting the reduction in contract personnel needed after the initial phase of the Company re-direction in mid-2020.

Office expenses were higher in 2021 compared to 2020 due to the relocation of the Company's headquarters, together with an investment in employee training.

Travel increased in Q4 2021 compared to Q4 2020, reversing the YTD trend, as sales pursuits and tradeshows have begun to transition to include some in-person contact, rather than solely in a virtual environment.

Depreciation expense was lower in 2021 than 2020, as the timing of the headquarters' office move in mid-2020 resulted in a one-time depreciation overlap on both buildings during the 2020 transition.

Government grants comprise funding received via Canadian governmental funding programs (CEWS, CERS and HASCAP) in support of businesses throughout the pandemic, relating to expenses in both the salaries and office categories. The grant totals in 2020 included a United States government grant as well as Canadian government funding, while funding in 2021 was solely received from the Canadian government. Differences in funding levels over time are reflective of variances in eligible expenses as well as changes in government funding made available under these programs in each respective period.

Bad debt reserve quarter over quarter variances reflects differences in bad debt estimates in Q4 2021 compared to Q4 2020, showing a degree of recovery for FLYHT's airline customers.

Administration Expenses (Recovery)

Consists of expenses associated with the general operations of the Company that are not directly associated with delivery of services or sales.

Major Category	Q4 2021 $	Q4 2020 $	Variance $	YTD 2021 $	YTD 2020 $	Variance $
Salaries and benefits	328,830	846,670	(517,840)	1,197,969	2,342,232	(1,144,263)
Share based compensation	34,006	(30,356)	64,362	126,601	120,924	5,677
Contract labour	183,993	146,935	37,058	720,439	470,549	249,890
Office	135,814	109,993	25,821	570,779	492,879	77,900
Legal fees	212,552	6,472	206,080	289,829	78,889	210,940
Audit and accounting	75,520	43,082	32,438	242,939	193,807	49,132
Investor relations	32,196	41,374	(9,178)	126,500	170,510	(44,010)
Travel	22,274	4,797	17,477	58,011	71,227	(13,216)
Equipment and maintenance	69,215	113,927	(44,712)	307,012	316,333	(9,321)
Depreciation	20,804	29,959	(9,155)	101,533	163,580	(62,047)
Government grants	(38,442)	(83,460)	45,018	(368,392)	(384,286)	15,894
Other	9,774	11,550	(1,776)	10,489	19,992	(9,503)
Total	**1,086,536**	**1,240,943**	**(154,407)**	**3,383,709**	**4,056,636**	**(672,927)**

Administration expenses decreased by 12.4% from Q4 2020 to Q4 2021, contributing to a 16.6% reduction from full year 2020 to 2021.

Salaries and benefits have decreased due to reductions in admin staff occurring in the second half of 2020, reflecting changes from the Company's 2020 strategic pivot to increased emphasis on the development and sale of SaaS solutions. A portion of this decrease has been offset by increases in **Contract Labour**.

Office expenses have increased with a rise in insurance costs due to a combination of market conditions and contractual requirements.

Legal expenses have increased with the acquisition of the WVSS-II product line, the creation of a European subsidiary as a special purpose vehicle for the acquisition of CrossConsense GmbH & Co, KG, and the pursuit and evaluation of that acquisition.

Depreciation expense was lower in 2021 than 2020, as the timing of the headquarters' office move in mid-2020 resulted in a one-time depreciation overlap on both buildings during the 2020 transition.

Government grants comprise 2021 funding received via Canadian governmental funding programs (CEWS, CERS and HASCAP) in support of businesses throughout the pandemic, relating to expenses in both the salaries and office categories. The grant totals in 2020 included a United States government grant as well as Canadian government funding, while funding in 2021 was solely received from the Canadian government. Differences in funding levels over time are reflective of variances in eligible expenses as well as changes in government funding made available under these programs in each respective period.

Research, Development and Certification Engineering Expenses (Recovery)

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

Major Category	Q4 2021 $	Q4 2020 $	Variance $	YTD 2021 $	YTD 2020 $	Variance $
Salaries and benefits	1,003,732	886,327	117,405	4,247,751	3,341,024	906,727
Share based compensation	4,308	3,693	615	20,432	11,754	8,678
Contract labour	54,717	75,430	(20,713)	319,409	433,854	(114,445)
Office	49,112	23,418	25,694	206,066	79,493	126,573
Travel	862	3,379	(2,517)	24,638	16,232	8,406
Equipment and maintenance	22,208	8,019	14,189	44,842	21,781	23,061
Components	8,288	13,938	(5,650)	17,368	30,315	(12,947)
Depreciation	63,190	34,175	29,015	226,236	145,778	80,458
Government grants	(92,098)	(92,023)	(75)	(665,445)	(742,295)	76,850
Other	5,000	200	4,800	5,904	306	5,598
Total	**1,119,319**	**956,556**	**162,763**	**4,447,201**	**3,338,242**	**1,108,959**

Research and Development expenses were 17.0% higher in Q4 2021 compared to the prior year's fourth quarter, contributing to a 33.2% increase year over year. The main contributor to the variances were increased people costs as the Company invested in the Actionable Intelligence suite of products and in the AFIRS Edge. Research and development costs vary according to specific project requirements.

Salaries and benefits expense increased in 2021 to meet the requirements of new R&D-type initiatives, offset partially by decreases in **Contract labour**.

Office expenses were higher in the fourth quarter of 2021 compared to 2020 due partially to the mid-2020 move to a new corporate office in Calgary as well as increased investment in employee training, particularly in Agile development principles and various other development software and tools.

A greater portion of the Company's assets were deployed in supporting development activities, resulting in the R&D category's **Depreciation** expense being higher in the fourth quarter of 2021 compared to the same quarter in 2020, however the Company's total depreciation expense decreased, both in the quarter and YTD.

Government grants variances reflect differences in pandemic support received via Canadian government programs (CEWS, CERS and HASCAP), and in differing levels of expenses eligible for funding under the WINN program in each period. 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 2021 $	Q4 2020 $	Variance $	YTD 2021 $	YTD 2020 $	Variance $
Interest income	(4,368)	4,287	(8,655)	(17,581)	(45,008)	27,427
Net foreign exchange loss (gain)	(2,984)	113,724	(116,708)	(1,980)	139,548	(141,528)
Bank service charges	7,870	6,653	1,217	32,796	29,528	3,268
Other (gain)	413,104	(144,626)	557,730	(84,938)	(419,682)	334,744
Interest expense	23,740	34,758	(11,018)	114,054	134,386	(20,332)
Government loan accretion	83,782	86,154	(2,372)	433,274	420,423	12,851
Debenture interest and accretion	-	64,372	(64,372)	152,248	254,571	(102,323)
Net finance costs	**521,144**	**165,322**	**355,822**	**627,873**	**513,766**	**114,107**

Net foreign exchange loss (gain) will vary between periods due mainly to fluctuations in the value of the Canadian dollar in relation to the U.S. dollar. A weakening of the Canadian dollar in Q4 2021 gave rise to foreign exchange gains in Q4 2021 compared to foreign exchange losses in Q4 2020 on U.S. dollar denominated sales and purchases, in combination with fluctuations in U.S. denominated assets and liabilities. YTD variances in this category show the impact of the pandemic particularly in Q3 2020 on foreign exchange rates.

Other gain is the recognition of the benefit derived from payment deferral of the Company's government loans, which was re-assessed in Q4 2021, given changes in market rates.

Net Loss & EBITDA[2]

Major Category	Q4 2021 $	Q4 2020 $	Variance $	YTD 2021 $	YTD 2020 $	Variance $
Net income (loss)	(2,444,054)	(1,999,715)	(444,339)	(5,859,206)	(3,237,457)	(2,621,749)
Finance costs	521,144	165,322	355,822	627,873	513,766	114,107
Income tax	(1,324)	581	(1,905)	252	961	(709)
Depreciation	179,234	176,702	2,532	692,888	868,318	(175,430)
EBITDA[2]	**(1,745,000)**	**(1,657,110)**	**(87,890)**	**(4,538,193)**	**(1,854,412)**	**(2,683,781)**

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, but it is important to identify any 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

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, particularly for our commercial airline customers, as many of our cargo customers have seen positive or neutral impact to their operations. The COVID-19 pandemic has also had an impact on the supply chain in the form of longer lead-times and pricing increases. These longer lead-times and pricing increases are expected to subside over time but may temporarily result in pressure to increase inventory holdings to mitigate potential schedule delays. In late 2020 FLYHT began to see some recovery in our customers' operations, with aircraft re-commencing operations as well as receivable payments being made. Throughout 2021 that recovery varied due to subsequent waves of the pandemic impacting several areas of the world, and the impact of the latest variants. 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.

The recovery of the airline industry from the COVID-19 pandemic as measured by operators nearing pre-pandemic flight numbers is not proving to be a good indicator of overall airline health. Even though flight numbers may be increasing, airline operations remain severely stressed. There is a risk that operational improvements as offered by the Company may not be high on the priority list for airlines that are struggling to operate under the weight of the pandemic's effects on their operations.

Production and Physical Workspace Risk

FLYHT relies on a physical infrastructure to carry out certain activities. Local as well as widespread impacts such as fire and extreme weather could impact FLYHT's ability to carry out operations. FLYHT maintains a business continuity plan to mitigate the impact of such events.

Climate Change Risk

Airlines are responsible for a significant portion of the emissions that are known to have negative climate impact. This is both an opportunity and a risk for FLYHT. FLYHT's products can aid our customers in reducing their environmental impact through optimizing the use of their assets, including a reduction in emissions. The most significant risk to FLYHT is a reduction in customers' operations due to social or other pressures, or regulation, to limit flights. If this risk were to be realized, it could eventually erode FLYHT's revenue in alignment with our customers.

Policy and Regulation Risk

FLYHT customers operate in a variety of jurisdictions. Government policy and regulation changes could have impact to FLYHT, both positively and negatively. Impacts could include, but not be limited to, FLYHT's ability to collect data, disseminate data and other constraints related to provision of services. Changes to governmental policy and regulations is an inherently challenging area, and could have material impact to FLYHT's future revenue and expenses.

Geo-political Risk

Geopolitical risk covers a wide array of risks associated with any sort of conflict or tension between states, with the potential to impact global trade, security, and political relations, with secondary results including impacts to commercial aviation, and commodity pricing increases. The Company has a globally diverse customer base, with diversity also in customer operations, including both passenger travel and freight operations. This multi-level diversity helps mitigate the impact of regional reductions and market segment reductions in aviation due to travel restrictions, sanctions, or degradation in infrastructure. If further pressure due to geopolitical factors emerge, FLYHT will respond accordingly.

Installations at c-checks

Some of the Company's products including 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 operating.

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 profit slightly when revenue is recognized but allows the Company to receive cash immediately after signing an agreement. Additionally, 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 was fully migrated to AWS in 2020, minimizing 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.

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, 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.

Revenues associated with TAMDAR

TAMDAR has been installed on almost 300 aircraft for the purpose of collecting weather data, which is supplemented with AMDAR 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 and AMDAR data could be diminished or stop. This lack of perceived value could depend 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 data 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. Worldwide, the number of flights has 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.

Employee Retention

FLYHT, like many businesses today, is faced with employee retention challenges often referred to as, "The Great Resignation". Further, there is high demand for technology workers, particularly in the areas of software development and data science. The pandemic related shift to remote-first workplaces is both and opportunity and a threat to FLYHT. As FLYHT has embraced aspects of remote-first work, the Company can benefit from a larger talent pool. Conversely, FLYHT employees are likely targets for recruiting. FLYHT mitigates this risk by encouraging a healthy work environment, work-life balance and competitive compensation.

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. 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 in 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 receiving newly built AFIRS 228 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 in the future. The AFIRS 228 is serviced in different ways; by the contract manufacturer, at FLYHT's facility or by the Company's 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.

Proprietary protection

Patent rights are important to the Company, with the AFIRS technology being one of the Company's primary revenue sources. 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.

Generally, the patent position of advanced technology companies 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 to meet any other requirement for patentability.

Cyber Security Risk
Cyber security incudes the protection of both the Company's corporate and customer facing systems from information disclosure, theft or damage to hardware, software, electronic data, as well as the disruption or misdirection of the services they provide.

The Company has responded to the increase in cyber threats with an emphasis on addressing these threats within the industry. Specifically, the Company has taken actions to assess potential threats, identify and implement recommendations, including the addition of dedicated resources to further harden our systems, and improve our preparedness.

Contractual Arrangement

Certain of the Company's sales contracts require that, in the event the Chinese government restricts use of the Iridium satellite network, 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 Satellite LLC. versus the former annual grant system. Given the prevalent use of Iridium services in China and the extensions of waivers reported by Iridium Satellite LLC, 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 commencing in Q4 2020. A company related to a director of FLYHT provided financial consulting services commencing in Q3 2021. Differing resource start dates resulted in variances from 2020 to 2021. All the transactions with both related parties were at terms equivalent to those that prevail in arm's length transactions.

	For the three months ended December 31		For the year ended December 31	
Amounts included in:	**2021 $**	**2020 $**	**2021 $**	**2020 $**
Contract labour	62,000	20,685	185,970	22,575
Accounts payable	32,972	10,895	32,972	10,895

Government Grants

Contributions of $1,025,370 were received from WINN for the year ended December 31, 2021 (2020: $624,480).

In the year ended December 31, 2021, the Company recognized $1,243,671 in government financial relief related to COVID-19 (2020: $2,132,930). $455,987, $368,392 and $419,292 have been applied to offset associated expenses in Distribution, Administration, and Research & Development expenses respectively.

The $246,153 grant portion of the contributions received from WINN in the year ended December 31, 2021 (2020: $119,047) was offset against associated expenses in Research & Development expense.

Subsequent Event

In March 2022, the Company acquired 100% of the shares of CrossConsense GmbH & Co. KG (“CrossConsense”). Founded in 2002, Frankfurt Germany-based CrossConsense develops and markets software to support commercial aviation maintenance management. Products include a predictive maintenance troubleshooting and engineering tool; software to support aircraft maintenance, repair and data migration; and live data dashboards to assist aircraft maintenance teams. CrossConsense has also constructed a progressive web application plus native apps that offer up-to-date data on an airline’s fleet status. Additionally, CrossConsense offers consulting and support services as well as hosting, database operation and performance monitoring of commercial aircraft maintenance applications. This acquisition is expected to accelerate FLYHT’s strategic roadmap to build out a maintenance software capability and will fulfill the Company’s goal to increase its presence in the European and Middle East markets.

Under terms of the agreement, FLYHT (through its wholly owned German subsidiary formed as part of this transaction) acquired all of the outstanding securities of CrossConsense for CAD$1,250,000 in cash and 1,900,000 common shares of the Company, valued at $0.65 per share. The shares are being held in escrow and will be released equally in 1/3 increments at 4-, 16- and 28-months following issuance on the transaction’s closing date. In tandem with the acquisition, an agreement was signed with the majority owner of CrossConsense for provision of services over the 18 months following the transaction’s effective date.

The Company incurred acquisition-related costs of $254,903 in due diligence and legal fees in 2021. These costs have been included in Administrative Expenses (note 21).

As of April 6, 2022, amounts recognized as of the acquisition date for each major class of assets acquired and liabilities assumed cannot be disclosed, as the initial accounting for the business combination has not yet been completed. Audited results for the periods prior to the acquisition are also not available for the acquired entity. Financial results of consolidated activities will be included in the Company’s statement of comprehensive income from the closing date of March 17, 2022. Proforma statements showing the impact of consolidation from the contractual effective date of January 1, 2022 will be disclosed in the financial statement notes in the Company’s first quarter 2022 report.

KPMG

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of FLYHT Aerospace Solutions Ltd.

Opinion

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

- the consolidated statements of financial position as at December 31, 2021 and December 31, 2020
- 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, 2021 and December 31, 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS) as issued by the International Financial Accounting Standards Board (IASB).

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 $5.9 million and $3.2 million for the years ended 2021 and 2020 respectively and as at December 31, 2021 has a deficit of $79.1 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 filed with the relevant Canadian Securities Commissions.
- the information, other than the financial statements and the auditor's report thereon, included in the document entitled "2021 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 and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis and 2021 Annual Report 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) as issued by the International Accounting Standards Board (IASB), 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 represent 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 auditors' report is Stephanie Regier Pankratz.

KPMG LLP

Chartered Professional Accountants

Calgary, Canada
April 6, 2022

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION[9]

	December 31, 2021 $	December 31, 2020 $
Assets		
Current assets		
Cash and cash equivalents (note 5)	4,520,591	5,127,963
Trade and other receivables (note 6)	1,590,473	1,587,275
Contract assets	151,616	187,892
Deposits and prepaid expenses	377,688	544,052
Inventory (note 7)	1,683,006	1,561,959
Total current assets	8,323,374	9,009,141
Non-current assets		
Property and equipment (note 8)	2,812,606	3,035,392
Intangible assets (note 9)	264,218	34,992
Inventory (note 7)	1,849,988	1,656,710
Total non-current assets	4,926,812	4,727,094
Total assets	**13,250,186**	**13,736,235**
Liabilities		
Current liabilities		
Trade payables and accrued liabilities (note 10)	1,703,309	2,128,941
Customer deposits (note 11)	609,555	492,679
Loans and borrowings (note 13)	664,470	2,376,594
Lease liability (note 14)	373,756	679,816
Total current liabilities	3,351,090	5,678,030
Non-current liabilities		
Loans and borrowings (note 13)	3,791,816	3,012,136
Lease liability (note 14)	2,128,919	2,157,326
Provisions (note 15)	13,850	24,103
Total non-current liabilities	5,934,585	5,193,565
Total liabilities	**9,285,675**	**10,871,595**
Equity		
Share capital (note 16)	70,779,594	63,995,030
Convertible debenture – equity feature	-	173,524
Warrants (note 16)	954,535	1,195,396
Contributed surplus	11,421,730	10,832,085
Cumulative translation adjustment	(51,747)	(51,000)
Deficit	(79,139,601)	(73,280,395)
Total equity	3,964,511	2,864,640
Total liabilities and equity	**13,250,186**	**13,736,235**

[9]*See accompanying notes to consolidated financial statements, including the going concern note (note 2e).*

On behalf of the board

Director – Doug Marlin

Director – Paul Takalo

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS[9]

	For the year ended December 31	
	2021 $	2020 $
Revenue (note 18)	11,318,689	13,652,985
Cost of sales	4,849,118	4,395,886
Gross profit	6,469,571	9,257,099
Distribution expenses (note 20)	3,869,742	5,391,864
Administration expenses (note 21)	3,383,709	4,056,636
Research, development and certification engineering expenses (note 22)	4,447,201	3,338,242
Loss from operating activities	(5,231,081)	(3,529,643)
Other Income (note 19)	-	806,913
Finance income (note 23)	(104,499)	(464,690)
Finance costs (note 23)	732,372	978,456
Net finance costs	627,873	513,766
Loss before income tax	(5,858,954)	(3,236,496)
Income tax expense (note 24)	(252)	(961)
Loss for the period	(5,859,206)	(3,237,457)
Foreign currency translation adjustment	(747)	(18,824)
Comprehensive loss for the period	(5,859,953)	(3,256,281)
Loss per share		
Basic and diluted loss per share (note 17)	(0.19)	(0.12)

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY[9]

For the years ended December 31, 2021 and 2020

	Share Capital $	Convertible Debenture $	Warrants $	Contributed Surplus $	Cumulative Translation Adjustment	Deficit $	Total Equity (Deficit) $
Balance at January 1, 2021	63,995,030	173,524	1,195,396	10,832,085	(51,000)	(73,280,395)	2,864,640
Loss for the period	-	-	-	-	(747)	(5,859,206)	(5,859,953)
Total comprehensive loss	-	-	-	-	(747)	(5,859,206)	(5,859,953)
Contributions by and distributions to owners							
Issue of common shares	6,786,614	-	-	-	-	-	6,786,614
Share issue costs	(55,712)	-	-	-	-	-	(55,712)
Share-based payment transactions	-	-	-	194,092	-	-	194,092
Conversion of debt	-	(173,524)	-	173,524	-	-	-
Warrants expired	-	-	(240,861)	240,861	-	-	-
Share options exercised	53,662	-	-	(18,832)	-	-	34,830
Total contributions by and distributions to owners	6,784,564	(173,524)	(240,861)	589,645	-	-	6,959,824
Balance at December 31, 2021	70,779,594	-	954,535	11,421,730	(51,747)	(79,139,601)	3,964,511
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 (loss) for the period	-	-	-	-	(18,824)	(3,237,457)	(3,256,281)
Total comprehensive income	-	-	-	-	(18,824)	(3,237,457)	(3,256,281)
Contributions by and distributions to owners							
Share-based payment transactions	-	-	-	159,885	-	-	159,885
Warrants exercised	486,950	-	(104,398)	-	-	-	382,552
Warrant modifications	-	-	76,912	-	-	(76,912)	-
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

CONSOLIDATED STATEMENTS OF CASH FLOWS[9]

	For the year ended December 31 2021 $	2020 $
Cash flows from (used in) operating activities		
Loss for the period	(5,859,206)	(3,237,457)
Depreciation – property and equipment	692,889	828,528
Disposal of PP&E	3,854	39,789
Convertible debenture accretion & interest	152,248	254,571
Lease liability accretion	105,293	134,246
Grant portion of contributions from WINN	(246,153)	(119,047)
Grant portion of BDC HASCAP loan	(31,016)	-
CARES (PPP) loan forgiveness	-	(745,472)
Gain on loan modification	(84,938)	(419,682)
Government loan accretion	433,274	420,422
Equity-settled share-based payment expenses	194,092	159,885
Issuance of common shares	165,000	-
Change in inventories	(314,326)	(16,678)
Change in trade and other receivables	(5,999)	3,327,220
Change in contract assets	40,578	68,233
Change in prepayments	166,364	253,707
Change in trade and other payables	(427,029)	(268,436)
Change in customer deposits	116,876	331,973
Change in contract liabilities	-	(143,309)
Change in provisions	298	2,636
Provision used	(10,523)	(8,735)
Unrealized foreign exchange loss	(1,980)	220,987
Other interest expense	8,760	140
BDC (HASCAP) interest paid	(5,863)	-
Debenture interest paid	(133,949)	(133,949)
Lease interest paid	(103,760)	(59,043)
Interest income	(17,581)	(45,008)
Interest received	13,279	44,036
Income tax expense	252	961
Income tax paid	(280)	(961)
Net cash from (used in) operating activities	(5,149,546)	889,557
Cash flows used in investing activities		
Acquisitions of property and equipment	(369,547)	(347,587)
FLYHT WVSS-II intellectual property	(229,226)	-
Proceeds on the sale of property and equipment	482	-
Net cash used in investing activities	(598,291)	(347,587)
Cash flows from financing activities		
Subsidy payment received	-	231,377
Less subsidy recognized	-	(806,913)
Net proceeds from private placement	6,565,901	-
Proceeds from exercise of share options	34,830	-
Warrant exercises	-	382,552
Payment of lease liabilities	(445,675)	(560,810)
Contributions from CARES (PPP)	-	745,472
Contributions from WINN	1,025,370	624,480
Contributions from BDC (HASCAP)	250,000	-
Repayment of convertible debenture	(1,674,359)	-
Repayment of borrowings	(625,820)	(117,000)
Net cash from financing activities	5,130,247	499,158
Net increase (decrease) in cash and cash equivalents	(617,590)	1,041,128
Cash and cash equivalents, beginning	5,127,963	4,127,648
Effect of exchange rate fluctuations on cash held	10,218	(40,813)
Cash and cash equivalents, ending	4,520,591	5,127,963

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2021 and 2020

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 offices in Denver CO, USA and Frankfurt, Germany. FLYHT Aerospace Solutions Ltd 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 and delivers industry leading solutions to improve aviation safety, efficiency, and profitability. This unique capability is driven by a suite of patented aircraft certified hardware products. These include AFIRS, an aircraft satcom/interface device, which enables cockpit voice communications, real-time aircraft state analysis, and the transmission of aircraft data while inflight. The AFIRS Edge is a state-of-the-art 5G Wireless Quick Access Recorder (WQAR), Aircraft Interface Device (AID), and Aircraft Condition and Monitoring System (ACMS). The Edge can be interfaced with FLYHT's TAMDAR probe or the FLYHT-WVSS-II relative humidity sensor to deliver airborne weather and humidity 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") as issued by the International Accounting Standards Board ("IASB"). These consolidated financial statements were approved by the Board of Directors on April 6, 2022.

(b) Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis, except for financial instruments at fair value through profit or loss, which are measured at fair value in the statement of financial position.

(c) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency. 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. 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 throughout 2021 that recovery varied due to the subsequent waves of the pandemic impacting several parts of the world, and also with the impact of the latest variants. Various segments of the aviation industry have been impacted differently throughout the pandemic, with the decline in commercial aviation being partially offset by an increased demand for cargo services. Geographic differences continue to occur, as pandemic waves affect different parts of the globe at different times, vaccination programs vary greatly between countries, and remote locations of the world maintain their supply chain and connection to the rest of the world via air transport.

Due to the equity raise in July 2021, which improved the Company's working capital[1], the Company entered the second half of 2021 with a relatively healthy cash position. The Company anticipates continued negative revenue impact in the near-term as compared to pre-pandemic periods 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. 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.

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

- Focused effort on development of strategic SaaS partnerships
- Focused development on Actionable Intelligence SaaS products
- 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, 2021, the Company has recognized a total of $1.2 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. It is the Company's intention to continue to fund operations by adding revenue and its resulting cash flow, as well as continue to manage outgoing cash flows. The Company incurred losses in both 2021 and 2020 of $5.9 million and $3.2 million respectively and as at December 31, 2021 has a deficit of $79 million. In 2021, the Company used $5.1 million of cash in operations. At December 31, 2021, the Company had positive working capital[1] of $4.9 million compared to positive $3.3 million as of December 31, 2020, an increase of $1.6 million. The Company ended 2021 with balances of $4.5 million in cash and cash equivalents, an undrawn credit facility of $1.5 million, and $947 thousand 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 customers and prospects, which are expected to result in additional contracts for delivery of hardware units and related services. 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.

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. 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[1] 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 cast doubt as to 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.

(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.

8. Valuation of WVSS-II assets acquired: a discount rate and a market royalty rate were used to determine the fair value of the intangible assets acquired.

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., FLYHT Germany GmbH, 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) Equity

Instruments 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, the AFIRS Edge, FlightLink and TAMDAR systems and the design and testing of all software systems and products (including AirMap, UpTime, FLYHTASD, FleetWatch, FuelSense, ClearPort, 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. Intangible assets acquired by the Company with indefinite useful lives are measured at cost less accumulated impairment losses. These assets are tested annually for impairment.

(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) Asset Acquisitions

The Company accounts for asset acquisitions using the cost accumulation method when control is obtained. The individual identifiable assets are determined and the cost of the acquisition, including certain transaction costs, is allocated to the assets acquired on the basis of relative fair value. This allocation can result in the recognition of some assets at a value other than their fair market value.

(k) 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.

(l) Warranties

The Company typically warrants that product 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.

(m) 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.

(n) 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.

(o) 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.

(p) 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.

(q) 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.

(r) 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.

(s) 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.

(ii) 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.

(t) 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, 2021 $	December 31, 2020 $
Trade receivables	1,588,011	1,585,437
Non-trade receivables and accrued receivables	2,462	1,838
Total	**1,590,473**	**1,587,275**

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, 2021 $	December 31, 2020 $
Raw materials	2,235,640	1,973,869
Work in progress	15,491	12,195
Finished goods	1,281,863	1,232,605
Balance	**3,532,994**	**3,218,669**
Less current portion	(1,683,006)	(1,561,959)
Non-current portion	1,849,988	1,656,710

In 2021 Raw materials and Finished goods recognized as cost of sales amounted to $2,229,777 (2020: $1,956,743). Included in this amount was a write down of inventories amounting to $382,992 (2020: $42,774) resulting from the review of slow-moving inventory parts. All inventories are pledged as security for the bank loan (note 13).

8. Property and equipment

2021	Computers and Software $	Equipment $	Leasehold Improvements $	Leased Assets $	Total $
Cost					
Balance at January 1	806,453	541,023	17,706	3,771,693	5,136,875
Additions	123,049	246,366	-	112,628	482,043
Disposals	(100,061)	(2,469)	-	(508,434)	(610,964)
Cumulative translation adjustment	(94)	(5)	(19)	(1,052)	(1,170)
Balance at December 31	829,347	784,915	17,687	3,374,835	5,006,784
Accumulated Depreciation					
Balance at January 1	590,953	223,969	11,114	1,275,447	2,101,483
Depreciation for the year	112,590	69,816	5,222	505,261	692,889
Disposals	(96,954)	(1,240)	-	(506,596)	(604,790)
Cumulative translation adjustment	747	463	34	3,352	4,596
Balance at December 31	607,336	293,008	16,370	1,277,464	2,194,178
Carrying Amounts					
At January 1	215,500	317,054	6,592	2,496,246	3,035,392
At December 31	**222,011**	**491,907**	**1,317**	**2,097,371**	**2,812,606**

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**

As of December 31, 2021, all property and equipment are pledged as security for the bank loan (note 13).

9. Intangible assets

The intangible assets include the value of a license purchased from Bombardier that allows FLYHT access to technical documents for their CRJ aircraft. The Company continues to support customer aircraft built by Bombardier and foresees no end to the usefulness of those technical documents. Also included in the intangible assets is the value of the intellectual property obtained through the asset acquisition of the FLYHT-WVSS-II product line in September 2021 (note 28).

	December 31, 2021 $	December 31, 2020 $
Bombardier license	34,992	34,992
WVSS intellectual property	229,226	-
Balance, December 31	**264,218**	**34,992**

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

10. Trade payables and accrued liabilities

	December 31, 2021 $	December 31, 2020 $
Trade payables	990,053	1,120,306
Compensation and statutory deductions	309,082	920,694
Accrued liabilities	404,174	87,941
Balance, December 31	**1,703,309**	**2,128,941**

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

11. Customer deposits

	December 31, 2021 $	December 31, 2020 $
Opening balance	492,679	160,706
Payments received	2,029,607	2,810,119
Recognized as revenue	(1,912,731)	(2,478,144)
Balance, December 31	**609,555**	**492,679**

12. Contract liabilities

	December 31, 2021 $	December 31, 2020 $
Opening balance	-	658,655
Payments received	-	231,377
Recognized in Other Income	-	(806,913)
Effect of exchange rate variance	-	60,190
Weather licensing	-	(143,309)
Balance, December 31	**-**	**-**

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. This contract was fully settled in 2020.

13. Loans and Borrowings

Bank loan

The Company has an operating demand loan available through a Canadian chartered bank for up to a maximum of $1.5 million, 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 accounts receivable, cash collateral in the form of a Guaranteed Investment Certificate, 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 at both December 31, 2020 and 2021.

Government loans

In November 2016, the Company signed a contribution agreement with Western Economic Diversification Canada for a 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 adjusted the payment dates due to COVID-19, so that there were no payments scheduled from April through December 2020 and the final payment date was pushed back to September 2025. Repayments in 2021 totaled $468,000 (2020: $117,000). The carrying value of the amount owing under this program at December 31, 2021 is $1,472,209 (December 31, 2020: $1,780,731).

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 this 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, repayable over five years commencing October 1, 2021. Amendments in 2021 extended the timeframe for eligible project cost submission to September 30, 2023 and adjusted the repayment start date to October 1, 2023 with a final payment date of September 1, 2028. At December 31, 2021, the Company had received contributions totaling $1,813,632 (December 31, 2020: $788,262). The carrying value of the amount owing under this program at December 31, 2021 is $1,455,540 (December 31, 2020: $689,849).

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 (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. Repayment of $157,820 was made in 2021 (2020: nil). The carrying value of the amount owing under this program at December 31, 2021 is $1,306,656 (December 31, 2020: $1,262,090).

In May 2021, the Company received funding of $250,000 through the BDC's HASCAP loan program, designed to support small and medium sized businesses affected by COVID-19. This loan carries interest of 4% per annum over a 10-year term commencing May 10, 2021. Payments in the first year following funding are comprised of interest only, with the principal and accrued interest payable over the remaining 9 years. The carrying value of the amount owing under this program at December 31, 2021 is $221,881 (December 31, 2020: nil).

A summary of the carrying value of the government loans as at December 31, 2021 and changes during the year and comparative year are presented below.

	2021 Total	2020 Total
Balance January 1	3,732,670	3,343,497
Contributions received	1,275,370	624,480
Grant portion	(277,169)	(119,047)
Interest accretion	442,036	420,422
Gain on loan modification	(84,938)	(419,682)
Repayment	(631,683)	(117,000)
Balance December 31	**4,456,286**	**3,732,670**
Less current portion	664,470	720,534
Non-current portion	3,791,816	3,012,136

Convertible Debenture

The Company issued debentures with a face value of $2,000,000 on July 24, 2018. These debentures matured on July 24, 2021 and bore interest at a rate of 8% per annum, which was accrued and paid annually in arrears. All debentures remaining outstanding at the maturity date were repaid in full on July 23, 2021, including all outstanding secured convertible debentures (CAD$1.7 million) and all accrued and unpaid interest.

The Debentures were secured against all personal property of the Company and were 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 convertible debenture as at December 31, 2021 and changes during the year and comparative year are presented below.

	2021 $	2020 $
Balance January 1	1,656,060	1,535,438
Accrued interest	18,299	120,622
Debenture repayment	(1,674,359)	-
Balance December 31	**-**	**1,656,060**
Less current portion	-	1,656,060
Non-current portion	-	-

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. A reduction to the asset and associated lease liability of $120,524 occurred in 2021 with the completion of all initial contract terms. Amortization of the asset and accretion of the associated lease liability commenced on March 1, 2020.

On October 20, 2021 FLYHT entered into a lease expansion agreement, acquiring additional space co-located with the corporate head office. The terms of the lease include a 7-month period, followed by an 8.5-year contract term, to align with the terms on the initial lease. Annual payment amounts begin at $48,172 for the first 1.5 years, escalate by approximately 6% for the next 3 years, an additional 6% for the following 3 years, and an additional 6% for the final year. At inception, the Company recognized a right of use asset of $231,833 and a lease liability for the same amount. The value was determined using a discount rate based on the incremental borrowing rate of the Company, over the lease term of 110 months. Amortization of the asset and accretion of the associated lease liability commenced on November 1, 2021.

Depreciation of the right of use 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 corporate headquarters. The lease contract for the former premises expired in February 2021 with lease payments continuing until lease completion.

	2021 $	2020 $
Opening balance	2,837,142	1,082,684
Additions	112,628	2,258,667
Finance costs (note 23)	105,293	134,386
Lease payments	(549,435)	(619,853)
Cumulative translation adjustment	(2,953)	(18,742)
Balance, December 31	**2,502,675**	**2,837,142**
Less current portion	373,756	679,816
Non-current portion	**2,128,919**	**2,157,326**

15. Provisions

Product warranty	2021 $	2020 $
Balance January 1	24,103	30,202
Provision made during the period	5,959	1,151
Provision extinguished	(1,928)	(765)
Provision re-evaluation	(3,761)	2,250
Provision used during the period	(10,523)	(8,735)
Balance, December 31	**13,850**	**24,103**

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, 2020	26,654,328	63,508,080
Exercise of warrants	624,696	486,950
Balance December 31, 2020	**27,279,024**	**63,995,030**
Exercise of employee options	59,034	53,662
Common shares issued	9,078,818	6,786,614
Share issue costs	-	(55,712)
Balance December 31, 2021	**36,416,876**	**70,779,594**

On July 22, 2021 the Company closed a non-brokered private placement, issuing 8,828,818 units at a price of $0.75 per unit, for total proceeds of $6,621,614. Each unit consisted of one common share. All the common shares issued pursuant to the private placement were subject to a 4-month hold.

Option exercises during 2021 have resulted in the Company issuing a total of 59,034 shares for total proceeds of $34,830; all options were exercised at a price of $0.59 per share.

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 2021:

- 434,555 stock options to employees, officers and directors under the stock option plan with an exercise price of $0.57. The options will vest in equal tranches on May 6, 2022, 2023 and 2024 and will expire on May 6, 2025.
- 43,760 stock options to certain directors and employees under the stock option plan with an exercise price of $0.93. The options will vest in equal tranches on August 4, 2022, 2023 and 2024 and will expire on August 4, 2025.
- 100,000 stock options to certain employees under the stock option plan with an exercise price of $0.77. The options vested immediately on November 4, 2021 and will expire on November 4, 2022.
- 30,000 stock options to a consultant with an exercise price of $0.69. The options will vest in equal tranches on February 24, May 24, August 24, and November 24, 2022. These options are set to 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, 2021, there were 3,641,688 (2020: 2,727,902) common shares reserved for this purpose.

A summary of the Company's outstanding stock options as at December 31, 2021 and 2020 and changes during these years is presented below.

	2021		**2020**	
	Number of options	**Weighted average exercise price $**	**Number of options**	**Weighted average exercise price $**
Outstanding, January 1	1,373,333	0.93	1,074,107	1.70
Options granted	608,315	0.63	926,540	0.57
Options exercised	(59,034)	0.59	-	-
Options expired	(119,133)	1.17	(627,314)	1.72
Outstanding December 31	**1,803,481**	**0.83**	**1,373,333**	**0.93**
Unvested options	1,002,939	0.66	1,059,518	0.78
Outstanding and exercisable, December 31	**800,542**	**1.03**	**313,815**	**1.44**

The exercise prices for options outstanding at December 31, 2021 were as follows:

	All options		Exercisable options	
Exercise price:	**Number**	**Weighted average remaining contractual life (years)**	**Number**	**Weighted average remaining contractual life (years)**
$0.49	160,000	1.6	160,000	1.6
$0.52	11,240	2.8	-	-
$0.57	410,355	3.4	-	-
$0.59	605,069	2.5	168,876	2.5
$0.69	30,000	2.9	-	-
$0.77	100,000	0.9	100,000	0.9
$0.93	43,760	3.6	-	-
$1.50	224,092	1.4	152,701	1.4
$1.55	218,965	0.3	218,965	0.3
Total	**1,803,481**	**2.1**	**800,542**	**1.3**

The weighted average fair value of the options granted during the year that were valued using the Black-Scholes option pricing model was $0.26 (2020: $0.30). The fair value of the options granted and valued using the Black-Scholes option pricing model were valued with the following weighted average assumptions:

	2021	**2020**
Risk-free interest rate	0.63%	0.28%
Expected life (years)	1.86	2.06
Volatility in the price of the Company's common shares	84%	112%
Dividend yield rate	0.00%	0.00%

Warrants	**Number of warrants**	**Weighted average exercise price $**	**Value $**
Outstanding January 1, 2020	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**
Warrants expired	(368,627)	1.25	(240,861)
Outstanding December 31, 2021	**2,667,610**	**1.25**	**954,535**

In November 2021 the outstanding warrants were modified and extended. This amendment included an extension of the expiry date from November 15, 2021 to June 15, 2022 as well as a re-price of the warrants to 1.25.

17. Earnings per share

The calculation of basic and diluted earnings per share for the three months ended December 31, 2021 was based on a weighted average number of common shares outstanding of 36,416,421 (basic and diluted) (December 31, 2020: 26,677,439 (basic and diluted)). Both calculations of diluted earnings per share did not include outstanding stock options, warrants, nor convertible debentures because they would be anti-dilutive.

The calculation of basic and diluted earnings per share for the year ended December 31, 2021 was based on a weighted average number of common shares outstanding of 31,415,175 (basic & diluted) (December 31, 2020: 26,677,439 basic and diluted). The 2021 calculation of diluted earnings per share did not include outstanding stock options, warrants, nor convertible debentures 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 valued at $47,132, a leased building valued at $72,753, and non-current inventory valued at $843,269 located at FLYHT's offices in Littleton, CO.

	For the year ended December 31	
	2021	2020
	$	$
United States & Mexico	4,428,683	6,627,963
Asia	602,743	1,511,399
China	2,051,290	1,625,612
Middle East	1,006,363	903,656
Canada	1,976,939	1,539,009
Australia	267,700	415,011
Africa	549,019	545,828
Europe	359,306	334,684
South/Central America	76,646	149,823
Total	**11,318,689**	**13,652,985**

The following shows revenue per major product and service categories.

	For the year ended December 31	
	2021	2020
	$	$
SaaS	5,993,521	7,323,125
Hardware	3,394,228	2,306,371
Licensing	1,551,000	3,630,874
Technical Services	379,940	392,615
Total	**11,318,689**	**13,652,985**

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 $2,341,946 CAD.

Major customers

Revenues from the two largest customers represent approximately 28.3% of the Company's total revenues for the year ended December 31, 2021 (2020: 38.6%).

19. Other Income

	For the year ended December 31	
	2021	2020
	$	$
Subsidy recovery	-	806,913
Total	**-**	**806,913**

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). All subsidies had been received by December 31, 2020.

20. Distribution expenses

	For the year ended December 31 2021 $	2020 $
Salaries and benefits	3,294,529	4,460,350
Stock based compensation	47,058	27,208
Contract labour	661,853	765,169
Office	231,233	185,768
Travel	107,017	142,160
Equipment & maintenance	39,147	42,226
Depreciation	365,120	558,960
Marketing	40,737	92,734
Other government grants	(455,987)	(1,266,767)
Other	(460,965)	384,056
Total	**3,869,742**	**5,391,864**

Other government grants relate to amounts received from the Canadian government under the CEWS and the CERS refund programs, as well as the BDC HASCAP low-interest loan of $1,025,429, $187,226 and $31,016 respectively. These government grants are included in Distribution, Administration and Research, development and certification engineering.

21. Administration expenses

	For the year ended December 31 2021 $	2020 $
Salaries and benefits	1,197,969	2,342,232
Stock based compensation	126,601	120,924
Contract labour	720,439	470,549
Office	570,779	492,879
Legal fees	289,829	78,889
Audit and accounting	242,939	193,807
Investor relations	126,500	170,510
Travel	58,011	71,227
Equipment and maintenance	307,012	316,333
Depreciation	101,533	163,580
Other government grants (note 20)	(368,392)	(384,286)
Other	10,489	19,992
Total	**3,383,709**	**4,056,636**

22. Research, development and certification engineering expenses

	For the year ended December 31 2021 $	2020 $
Salaries and benefits	4,247,751	3,341,024
Stock based compensation	20,432	11,754
Contract labour	319,409	433,854
Office	206,066	79,493
Travel	24,638	16,232
Equipment and maintenance	44,842	21,781
Components	17,368	30,315
Depreciation	226,236	145,778
Grant WINN loan (note 13)	(246,153)	(119,047)
Other government grants (note 20)	(419,292)	(623,248)
Other	5,904	306
Total	**4,447,201**	**3,338,242**

23. Finance income and finance costs

	For the year ended December 31	
	2021	2020
	$	$
Interest income on bank deposits	17,581	45,008
Gain on modification of government loans	84,938	419,682
Net foreign exchange gain	1,980	-
Finance income	**104,499**	**464,690**
Bank service charges	32,797	29,529
Net foreign exchange loss	-	139,548
Interest on lease liability	105,293	134,246
Interest on BDC loan	8,760	140
Government grant interest accretion	433,274	420,422
Debenture interest expense and accretion	152,248	254,571
Finance costs	**732,372**	**978,456**

24. Income tax expense

Current Tax Expense

	2021	2020
	$	$
Current income tax expense	252	961
Deferred income tax expense	-	-
	252	**961**

Deferred Tax Expense

Deferred tax liabilities

Recognized deferred tax assets (liabilities) are attributable to the following:	2021 $	2020 $
PP&E	(110,366)	(336,440)
Reserves	(55,098)	-
Non-capital loss carry-forwards	165,464	336,440
Total	**-**	**-**

Unrecognized deferred tax assets

Deferred tax assets have not been recognized in respect of the following deductible temporary differences:	2021 $	2020 $
Lease liabilities	2,502,308	2,836,931
Reserves and FX	9,804	381,353
Non-capital loss carry-forwards	45,166,302	38,185,463
Share issue costs	398,552	480,830
Scientific research and experimental development expenditures	24,277,407	24,279,134
Total	**72,354,373**	**66,163,721**

The Company has non-capital losses for income tax purposes of approximately $45,877,401 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, $758,646 were incurred in the US and do not expire. The remaining losses were incurred in Canada and will expire as follows:

Year	Amount $
2027	4,641,374
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	2,533,068
2041	6,190,522
Total	**45,118,755**

Reconciliation of effective tax rate	**2021** **$**	**2020** **$**
Income (loss) before tax	(5,858,954)	(3,236,496)
Tax Rate	23%	24%
Expected income tax recovery	(1,347,560)	(776,759)
Change in rate	-	(109,876)
Non-deductible (taxable) amounts	6,187	(183,478)
Stock based compensation	44,641	38,372
Change in unrecognized temporary differences	1,296,984	1,032,702
	252	**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 16% (2020: 30%) of the Company's 2021 revenue is attributable to transactions with a single customer. There is no significant geographic concentration of outstanding balances, which has a minimizing impact on the Company's 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, 2021	0-30 days $	31-60 days $	61-90 days $	91+ days $	Total $
Accounts receivable	1,112,773	73,709	36,583	628,353	1,851,418
Impairment	(407)	(814)	(1,298)	(258,426)	(260,945)
Net receivable	**1,112,366**	**72,895**	**35,285**	**369,927**	**1,590,473**

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**

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, 2021 and 2020 was:

	2021 $	2020 $
Balance, January 1	1,003,574	544,880
Provision	(233,811)	512,496
Recovered	(246,195)	(43,311)
Amounts written off	(262,623)	(10,491)
Balance, December 31	**260,945**	**1,003,574**

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, 2021	Less than 1 year $	1-2 years $	2-5 years $	> 5 years $	Total $
Accounts payable	990,053	-	-	-	990,053
Compensation and statutory deductions	309,082	-	-	-	309,082
Accrued liabilities	404,174	-	-	-	404,174
Lease payments	402,689	309,788	985,759	1,451,889	3,150,125
Loans and borrowings	675,534	851,387	3,422,303	1,420,325	6,369,549
Total	**2,781,532**	**1,161,175**	**4,408,062**	**2,872,214**	**11,222,983**

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 $112,535 (2020: $135,861) and a strengthening of the Canadian dollar would decrease net earnings by approximately $112,535 (2020: $135,861).

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[1] items denominated in U.S. dollars. At December 31, 2021, working capital[1] denominated in U.S. dollars was approximately positive $1,767,876 (2020: positive $1,891,678). As a result, a 1% weakening of the Canadian dollar would increase net earnings by approximately $17,679 (2020: $18,917) and a strengthening of the Canadian dollar would decrease net earnings by approximately $17,679 (2020: $18,917).

The Company mitigates its working capital[1] exposure by managing its U.S. dollar denominated working capital[1] items to limit the requirement to convert either to or from U.S. dollars to fulfill working capital[1] 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, 2021 and 2020 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 13). 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. Government grants

Contributions of $1,025,370 were received from WINN for the year ended December 31, 2021 (2020: $624,480).

In the year ended December 31, 2021, the Company recognized $1,243,671 in government financial relief related to COVID-19 (2020: $2,132,930). $455,987, $368,392 and $419,292 have been applied to offset associated expenses in Distribution, Administration, and Research & Development expenses respectively.

The $246,153 grant portion of the contributions received from WINN in the year ended December 31, 2021 (2020: $119,047) was offset against associated expenses in Research & Development expense.

27. Related parties

A company related to an officer of FLYHT provided marketing services commencing in Q4 2020. A company related to a director of FLYHT provided financial consulting services commencing in Q3 2021. Differing resource start dates resulted in variances from 2020 to 2021. All of the transactions with both related parties were at terms equivalent to those that prevail in arm's length transactions.

	For the year ended December 31	
	2021	**2020**
Amounts included in:	**$**	**$**
Contract labour	185,970	22,575
Accounts payable	32,972	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:

	2021 $	**2020** $
Salary	1,453,932	1,219,967
Director fees	176,233	202,588
Variable compensation	98,500	54,250
Retiring allowance	-	451,390
Share-based payments	114,066	88,940
Short-term employee benefits	134,620	84,968
Total	**1,977,351**	**2,102,103**

Directors of the Company control 2.9% (2020: 3.0%) of the voting shares of the Company.

Subsidiaries

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

28. Asset Acquisition

On September 16, 2021, the Company acquired the WVSS-II product line assets from SpectraSensors Inc. The assets acquired included manufacturing assets, inventory, aviation-specific intellectual property, and a license to the Tunable Diode Laser Absorption Spectroscopy (“TDLAS”) technology for use in the weather and aviation markets. The Company concluded that the transactions should be accounted for as an asset acquisition, and recognized the acquired assets at cost, with the total acquisition costs being allocated to the underlying assets using relative fair value. Additional costs will be incurred to transport and install the inventory and manufacturing assets to the Company’s headquarters.

	Amounts recognized on acquisition
Property and equipment	198,396
Inventory	240,348
Intellectual property	229,226
Total	667,970
Less: acquisition direct costs	(36,170)
Purchase consideration	631,800

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

Assets acquired	**Valuation technique**
Property and equipment	Fair value assessment considered market prices for similar items when they were available, and depreciated replacement cost when appropriate.
Inventory	Inventory acquired was assessed for impairment and valued at cost or at a reduced value when appropriate.
Intellectual property	The value of the intellectual property acquired was measured using a discounted cash flow approach.

29. Contractual Arrangement

Certain of the Company's sales contracts require that, in the event the Chinese government restricts use of the Iridium satellite network, 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 more recently they moved to issuing three-year grants to Iridium Satellite LLC. 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 Satellite LLC, the likelihood of a liability under these contracts is considered to be remote.

30. Subsequent Event

In March 2022, the Company acquired 100% of the shares of CrossConsense GmbH & Co. KG ("CrossConsense"). Founded in 2002, Frankfurt Germany-based CrossConsense develops and markets software to support commercial aviation maintenance management. Products include a predictive maintenance troubleshooting and engineering tool; software to support aircraft maintenance, repair and data migration; and live data dashboards to assist aircraft maintenance teams. CrossConsense has also constructed a progressive web application plus native apps that offer up-to-date data on an airline's fleet status. Additionally, CrossConsense offers consulting and support services as well as hosting, database operation and performance monitoring of commercial aircraft maintenance applications. This acquisition is expected to accelerate FLYHT's strategic roadmap to build out a maintenance software capability and will fulfill the Company's goal to increase its presence in the European and Middle East markets.

Under terms of the agreement, FLYHT (through its wholly owned German subsidiary formed as part of this transaction) acquired all of the outstanding securities of CrossConsense for CAD$1,250,000 in cash and 1,900,000 common shares of the Company, valued at $0.65 per share. The shares are being held in escrow and will be released equally in 1/3 increments at 4-, 16- and 28-months following issuance on the transaction's closing date. In tandem with the acquisition, an agreement was signed with the majority owner of CrossConsense for provision of services over the 18 months following the transaction's effective date.

The Company incurred acquisition-related costs of $254,903 in due diligence and legal fees in 2021. These costs have been included in Administrative Expenses (note 21).

As of April 6, 2022, amounts recognized as of the acquisition date for each major class of assets acquired and liabilities assumed cannot be disclosed, as the initial accounting for the business combination has not yet been completed. Audited results for the periods prior to the acquisition are also not available for the acquired entity. Financial results of consolidated activities will be included in the Company's statement of comprehensive income from the closing date of March 17, 2022. Proforma statements showing the impact of consolidation from the contractual effective date of January 1, 2022 will be disclosed in the financial statement notes in the Company's first quarter 2022 report.

CORPORATE INFORMATION

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

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Bill Tempany	Interim CEO, FLYHT Aerospace Solutions Ltd.
Brent Rosenthal	Mountain Hawk Capital Partners, LLC
Doug Marlin	President, Marlin Ventures Ltd.
Jack Olcott	President, General Aero Company
Mary McMillan	Director
Mike Brown	Partner, Nanaimo Law
Paul Takalo	Director

Officers

Bill Tempany	Interim Chief Executive Officer
Kent Jacobs	President
Alana Forbes	Chief Financial Officer
Darrel Deane	Vice President Solutions
Derek Taylor	Vice President Sales and Marketing
Gurjot Bhullar	Vice President Operations

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