ANNUAL REPORT

FLYHT AEROSPACE SOLUTIONS LTD.

2022

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
AMOS™: Aircraft Maintenance and Engineering Operating System
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
ERTC: Employee Retention Tax Credit
ESG: Environmental, Social, Governance
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
MTBF: Mean Time Between Failures
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
TCFD: Task Force on Climate Related Disclosures
WINN: Western Innovation Initiative
WVSS: Water Vapour Sensing System
YTD: Year-to-date

LETTER TO SHAREHOLDERS

My name is Kent Jacobs, and late in 2022 I was appointed to the expanded position of President and Interim CEO of FLYHT. Bill Tempany, our CEO, passed away unexpectedly on December 20th of last year. It is with both a heavy heart and an unwavering commitment to his vision and legacy that I write this year-end 2022 shareholder letter. He is deeply missed by everyone at FLYHT and by me as my colleague, mentor, and friend. When Bill returned to FLYHT as our CEO in 2020, he set the tone for our software focused vision and formed the team that successfully continues his work today. I am proud to lead that team.

2022 was a year of exciting accomplishments and opportunities. As I consider my 20+ years at FLYHT I have never been more optimistic about our current state and future opportunities. With the strong execution of our strategy, we delivered record revenue of nearly $24 million, representing a doubling of our 2021 revenues, while also generating positive EBITDA in the second half of 2022. The continued recovery of the airline industry coupled with FLYHT's approach has placed us in a strong position to benefit from the ongoing robust demand for our legacy products and surging interest for our new and innovative solutions.

FLYHT's vision to become a global force in providing innovative aviation and environmental solutions for our customers is coming to fruition. We are on the verge of obtaining the initial Supplemental Type Certificates ("STCs") of our newest innovation, the AFIRS Edge™. The 5G enabled AFIRS Edge utilizes cellular, Iridium Certus®, and Wi-Fi capabilities to provide powerful situation awareness by delivering data in real-time. Its light-weight form and versatility bridge the end-to end digital divide and makes narrow body connectivity a reality. Our STC rollout strategy is to first address the Airbus A320 and Boeing 737 fleets around the world. By focusing on these narrow body fleets, we are targeting roughly 70% of the commercial aircraft worldwide. FLYHT envisions an addressable market of ~25,000 aircraft with the Edge poised to become the dominant avionics of choice for Wireless Quick Access Recorders ("WQARs") and Aircraft Interface Device ("AID") functions, enabling operations in finite airspace and in a progressively carbon free environment.

Building upon the AFIRS Edge infrastructure, weather and environmental services are becoming an increasingly important component of FLYHT's SaaS operating model. As presented in FLYHT's recent testimony to the Subcommittee on Environment of the United States House of Representatives' Committee on Science, Space, and Technology,[1] FLYHT's WVSS-II water vapour sensor system installed on an aircraft with an AFIRS Edge is a critical component of weather Aircraft Based Observations ("ABOs") for meteorologists and airlines. Weather constantly changes, making real-time ABOs a prime source of recurring revenue as ongoing support to weather forecasting models and aviation operations. As part of the global focus on environmental impacts of aviation, researchers have projected that clouds formed from contrails (contrail cirrus) are responsible for approximately half of aviation's climate effect, making contrail detection and avoidance programs a priority.[2] The FLYHT-WVSS-II sensor provides accurate water vapour detection thus providing valuable data and services regarding aircraft induced cloudiness and contrail avoidance. Initially, these services are expected to support the research community and governments, with airline and military operational applications to follow. Validation of FLYHT's environmental strategy was received last year, as the United Kingdom's Meteorological Office (UKMet) announced their intent to purchase FLYHT's WVSS-II water vapour sensor system.

While the AFIRS Edge is our new flagship offering, demand for the complementary AFIRS 228™ Satcom remains at an all time high. In 2022 FLYHT landed and fulfilled our single largest licencing order, totaling more than $7 million. The success of the Airbus A220/A320/A330 aircraft means we fully expect additional orders to continue from our licencing agreement with L3 Harris. Additionally, with its proven track record, the AFIRS 228 has allowed us to maintain our base of loyal customers. Over the years we have developed a library of more than 100 STCs which we continue to expand in concert with new airliner development including the Airbus NEO and Boeing Max fleets.

In addition to FLYHT'S AFIRS 228 and the AFIRS Edge both supporting all our products and services, we have also developed standalone SaaS offerings as part of our recurring revenue strategy. The recent introduction of ClearPort, our aircraft turn management tool, represents FLYHT's latest standalone SaaS product. As we expand into Artificial Intelligence and Machine Learning models, and further develop our Data Warehouse capabilities, we look forward to reaching our full SaaS revenue potential.

As in any year, 2022 is all about the people who make it happen. As we moved forward from development to market introduction, we brought on board four new members with a combined 75+ years of skill and experience in the aviation industry. These team members bring with them a sterling track record of success and an elite professional network thereby enhancing FLYHT's reputation and improving our time to market. Our innovative technologies and vision were paramount in attracting such talent to our organization. Their impact has been immediately felt and will reflect in future results.

As we accelerate out of COVID-19 and honour Bill's legacy, we remain steadfast in our execution of FLYHT's vision. I would like to thank our dedicated staff for their hard work and perseverance, our loyal shareholders for your continued support, and our customers for allowing us to continue to provide service and value.

Yours truly,

Kent Jacobs

---

[1] Written Statement of Meredith Bell, Atmospheric Program Manager for FLYHT Aerospace Solutions Ltd. *Reauthorizing the Weather Act: Data and Innovation for Predictions* March 28, 2023.

[2] Canada's Aviation Climate Action Plan 2022–2030, pp.32-33.

MANAGEMENT DISCUSSION & ANALYSIS

This management discussion and analysis ("MD&A") is as of April 12, 2023 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, 2022 and 2021 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, 2022 consolidated financial statements and the notes thereto in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). The Company's accounting policies are provided in note 3 to the consolidated financial statements.

Non-GAAP Financial Measures

The Company reports its financial results in accordance with International Financial Reporting Standards (IFRS) or Generally Accepted Accounting Principles (GAAP). It also occasionally uses certain non-GAAP financial measures, such as working capital, and earnings before interest, income tax, depreciation and amortization (EBITDA). FLYHT defines working capital as current assets less current liabilities. EBITDA is defined as income for the period, before net finance costs, income tax, depreciation and amortization of assets. These non-GAAP financial measures are always clearly indicated. 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 pandemic 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., German 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, global 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 pandemic 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 and software solutions. 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 (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 and/or the FLYHT-WVSS-II relative humidity sensor to deliver airborne weather and humidity data in real-time. FLYHT complements the AFIRS airborne systems with enterprise applications that help airlines improve operational efficiency and situational awareness including UpTime, FleetWatch, FuelSense and ClearPort services.

CrossConsense, FLYHT's wholly owned subsidiary, offers highly skilled services to the commercial aviation industry and provides preventative maintenance solutions. These include Aircraft Fleet View, a native application that gives a real-time view of airline fleet status; AviationDW, a managed data warehouse for enhanced business intelligence; and ACSIS, a visualization and predictive maintenance alerting tool.

FLYHT is headquartered in Calgary, Canada, and is an AS9100 Quality registered company. CrossConsense, located in Frankfurt, Germany, is an ISO9001 certified operation. For more information visit www.flyht.com.

1. Actionable Intelligence Solutions

Actionable Intelligence solutions maximize customers' operational efficiency and safety with reliable, easy to use, flexible, and cost-effective solutions. This industry differentiator provides not only economic value but also opportunities for customers and FLYHT to meet their sustainability goals. FLYHT aims to leave no data stranded and no related opportunity to take corrective or opportunistic action left unrealized.

Cloud-based enterprise servers complement AFIRS data with external airline, airport and other industry data sources. These external sources 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. The service offering provides FLYHT with a recurring, SaaS (Software as a Service) revenue stream that is incremental to its existing revenue sources. 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 solutions 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 existing 3G/4G and 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 success. 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 Electronic Flight Bag (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
Situational awareness remains a primary objective of any Operations Control Centre (OCC) and frontline staff. FLYHT's FleetWatch provides a configurable fleet wide situational awareness platform in a form factor most relevant to the role of the receiver. 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 is a primary conveyor of Actionable Intelligence to our airline customers.

FuelSense
Fuel and emissions are a significant concern for all airlines. 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. FuelSense incorporates the concept of Actionable Intelligence to provide meaningful information to an operator. Fuel optimization includes minimizing APU usage and optimizing dispatch, pilot and ground personnel actions.

ClearPort
Better asset utilization has a direct impact on airlines long-term sustainability. ClearPort provides Actionable Intelligence to support optimizing ground operations. 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. ClearPort draws attention to opportunities for personnel to better manage aircraft turns and immediately mitigate risks of late departures.

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 (the first 5G solution on the market), a modular Iridium Certus satcom, Bluetooth and WiFi capabilities, 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 many 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. There are two models within the AFIRS Edge product line: the AFIRS Edge, a flange mounted device, and the Edge+, a 4 MCU (ARINC 600 connector) unit, giving flexibility depending upon the aircraft type and customer requirements.

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 100+ aircraft in North America, Asia, and Europe through frequent soundings 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 integrate with existing onboard broadband solutions.

4. MRO Services

CrossConsense assists the aviation industry in using and applying SWISS Aviation's comprehensive AMOS software solution for maintenance, engineering and logistics needs, including required hardware, database and 1st and 2nd level application support.

In addition to maintenance system software solutions, CrossConsense provides data migration services for customers transitioning from other MRO platforms to AMOS, business intelligence and customization services, and consulting services. Through expert understanding of MRO products, and an understanding of airline maintenance operations, CrossConsense develops Actionable Intelligence solutions in the MRO market.

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 AS9100D certified with the registrar Intertek. 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 reduces 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 and ATR72-212A "500 Version"
	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 MAX 8
			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
I					Boeing B737-MAX 8
P					Airbus A319, A320, A321, NEO

**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 stemming from the COVID-19 pandemic and Ukraine/Russia conflict. A few key points are as follows[1].

- In 2022, air passenger traffic gained momentum globally and recovered substantially from 41.7% of 2019 revenue passenger-kilometers (RPKs) in 2021 to 68.5% in 2022.
- Domestic RPKs recovered to 79.6% of pre-pandemic passenger traffic in 2022 and grew 10.9% year-on-year (YoY) from 2021 levels. International RPKs recovered to 62.2% of 2019 traffic and grew 152.7% YoY from 2021 levels.
- Industry-wide RPKs increased by 39.7% YoY in December and reached 76.9% of pre-pandemic levels for the same month. Compared to December 2021, domestic passenger traffic grew 2.6% while international traffic grew 80.2%.
- Monitored domestic markets continued to show resilience and steady traffic levels. International passenger traffic within and between the Asia Pacific region and the rest of the world also continued to show positive trends.
- Total domestic ticket sales have seen an uptick over the month of January 2023. This positive development is mainly attributable to China reopening. On the other hand, international ticket sales have caught up to domestic in terms of recovery to 2019 sales volumes.

The Aviation Industry in 2022

International Air Transport Association's (IATA) industry results, measured in 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.

Over the course of 2022, global air passenger traffic gained momentum and recovered substantially as travel restrictions were taken down and passengers expressed a very strong willingness to travel. Passenger traffic recovered from 41.7% of 2019 volumes in 2021 to 68.5% in 2022. At the industry level, passenger demand was met by offered seat capacity in 2022, as available seat kilometers (ASKs) recovered to 71.9% of 2019 levels, while maintaining industry-wide passenger load factors of 78.7%. Passenger load factors for 2022 were only 3.9 percentage points (ppts) below the load factors achieved before the pandemic in 2019. Similar observations can also be made at the regional level.

Globally, domestic operations ramped up quicker than international as domestic travel policies offered more certainty to passengers. Despite the setbacks caused by lingering travel restrictions, international traffic took off significantly in 2022 wherever these restrictions were taken down. As a result, international RPKs surged from 26.8% of 2019 levels in 2021 to 62.2% in 2022. Airlines faced uneven outcomes in 2022. North American carriers led the industry by achieving close to pre-pandemic passenger traffic levels with total RPKs 11.3% under 2019 volumes, followed by Latin American and European carriers at 14.2% and 22.2%, respectively, below 2019 levels. Over the past year, re-openings in many economies of the Asia Pacific region allowed for passengers and airlines to return to the skies, greatly accelerating traffic growth in both domestic and international markets. While performed RPKs in 2022 were 54.4% under the levels of 2019 for this region's airlines, the recent developments related to the reopening of international travel in China PR give a positive outlook for the months to come.[1]

Industry-wide air cargo demand, measured by cargo tonne-kilometers (CTKs), remained broadly unchanged at 20.6 billion in December. This represents a 15.3% decline compared to the same month in 2021 and is also 7.4% lower than the corresponding pre-pandemic level. The industry did not perform as well as expected in a traditional peak season due to multiple headwinds in the current global economy. For the full 2022 calendar year, industry-wide CTKs were 8.0% below 2021 levels and 1.6% below 2019 levels. Compared to December 2019, North America continued to be the only region fully recovered to pre-pandemic levels in terms of total CTKs. Latin America sustained its lead in the growth of international CTKs among all regions, registering a 2.3% YoY growth in December.

Defense & Security Monitor posted on January 16, 2023, that Boeing and Airbus delivered 69 and 98 commercial jets in December 2022, compared to 38 and 93 deliveries, respectively, in the same month last year. Year to date, Boeing and Airbus have delivered 480 and 663 aircraft, compared to 340 and 611, respectively, in 2021. [3]

[1] https://www.iata.org/en/iata-repository/publications/economic-reports/air-passenger-market-analysis---december-2022/
[2] https://www.iata.org/en/iata-repository/publications/economic-reports/air-cargo-market-analysis---december-2022/
[3] Airbus and Boeing Report December and Full-Year 2022 Commercial Aircraft Orders and Deliveries – Defense Security Monitor (forecastinternational.com)

FLYHT's Market

FLYHT has been providing real-time communications leveraging satellite networks to commercial, business and military aircraft since 1998 with its AFIRS solution. In the past year, FLYHT has expanded its AFIRS portfolio with its AFIRS Edge product line, providing 5G cellular 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 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 in the air (e.g., Electronic Flight Bags via the Aircraft Interface Device (AID) functionality of the Edge) and on the ground.

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. FLYHT assists airlines in aligning the passenger experience, airline operations and positive working environment for enhanced profit opportunity, supported by a seamless technology partnership.

FLYHT's primary markets 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. Other markets include business jets and government/military air transport aircraft.

An expanding 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, recover quicker following better predicted weather 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 both the U.S. dollar and the euro throughout 2022, so overall the Company experienced a resulting positive impact to net income compared to 2021. As a result of these currency movements, the Company's revenues, of which a majority are denominated in U.S. dollars, with the proportion contributed by CrossConsense denominated in euros, were higher than they would have been had the foreign exchange rates not changed throughout 2022. It is generally the standard of the aviation industry to conduct business in U.S. dollars. While a majority of the Company's operating and overhead costs are denominated in Canadian dollars, a significant portion of costs are U.S. dollar and euro denominated, and therefore a partial natural hedge exists against fluctuations of the Canadian dollar.

Environmental, Social and Governance

FLYHT is committed to implementing the highest standards of Environmental, Social and Governance (ESG) throughout its operations. ESG factors are important to business operations and can impact company value and investor decision making. In 2022 FLYHT started to review its ESG practices and set priorities for measurement and goals for implementation. Each department was tasked with exploring their own opportunities and contributions to FLYHT's ESG strategy. The Company has set reporting metrics and is continually updating a roadmap and implementation timelines. The Board of Directors and Management at FLYHT selected the Annual Report as the communication method regarding FLYHT's ESG programs because they believe it is important for investors to see FLYHT's ESG commitments. Subsequent financial reports will be used to share updates as progress continues.

Environment

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 environmental regulatory filing requirements, such as CORSIA and EU ETS. The Company's products 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.

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. FLYHT's FuelSense and ClearPort products provide support to make policy improvements and justify performance-based maintenance activities. With the addition of real-time notifications to frontline personnel, FLYHT's customers can mitigate the negative impact of inefficiencies as situations develop. As announced in March 2022, FLYHT showcased its partnership with Swoop Airlines to reduce emissions by eliminating non-essential Auxilary Power Unit (APU) usage. The FLYHT real-time APU monitoring and notification program allows an airline to reduce its APU run times by providing timely, targeted and actionable notifications, thereby reducing CO2 emissions and providing cost savings for the airline. This initiative is aligned with FLYHT's goal of providing environmentally beneficial solutions that enhance the profit potential for an airline and that create a greener, safer world. The APU consumes approximately 250 lbs of fuel per hour under normal operation.

Measurable impacts internal to FLYHT since 2017 include an 86% reduction in our operation's reliance on paper and the diversion of over 60 computers, four servers, and 100 monitors from landfills to be repurposed for those in need in the local community. We have upgraded our on-premises server from previous generation hardware to a more energy efficient hyper-converged model, allowing for greater virtualization with less hardware. FLYHT has also moved most users to smaller, more efficient laptop computers, replacing inefficient desktop computers. In addition, FLYHT has shifted to increased virtualization, relying on Amazon Web Services (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.

Social

FLYHT has established corporate policies dedicated to improving efficiency in the use of resources and staying abreast of the UN's Sustainable Development Goals and ESG frameworks that are being implemented industry wide. 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.

FLYHT prioritizes a healthy work life balance by having flexible hours, encouraging a flexible hybrid workplace, providing paid time off for sickness and family responsibilities, providing opportunities and support to pursue training and professional development, and ensuring comprehensive health benefits. Policies that promote these areas include a career development and training policy, and a flexible workplace policy. In addition, FLYHT conducts a staff survey regularly to allow all employees to provide anonymous feedback on aspects related to company culture, workplace satisfaction, workload and recognition among others. FLYHT also tracks employee health and safety statistics to monitor that proper procedures are being followed to protect staff.

The development of a robust ESG policy is important to our employees. As the Company becomes more conscious of our contributions, a focus on ESG impacts our employees' well-being and is an example of how we can operate as environmental and social citizens. Employees can apply the same principles in their personal lives. Employee participation was critical in forming the Company's ESG direction and identifying key areas to focus on in each area of the business.

FLYHT has implemented a Security Management System (SecMS) to ensure that cyber, corporate, and product security protocols consistently fulfill all requirements mandated by government regulation and industry standards; are based on accurate assessment and effective mitigation of security risks; support the Company's vision and mission, values, and core business objectives; and are conducted in the most efficient and cost-effective manner, considering the operational and business environment.

The SecMS applies to the protection of FLYHT's people, data, assets, technology systems, Intellectual Property, and products and services. It consists of eight core elements that provide the overall governance, risk, business resilience, and continuous improvement protocols that can be scaled to include various operational security functions.

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 vision of being a global force in innovative data solutions. FLYHT is fully committed to doing what it takes to succeed in this area.

The Board of Directors and the senior management team believe that diversity is important to provide a range of perspectives, experiences and expertise to achieve effective stewardship. The Board of Directors and senior management teams have been developed with a wide range of viewpoints, backgrounds, skills, and expertise specific to the aviation technology sector and other industries or sectors that the Board of Directors believe are beneficial to the Company and its shareholders. At this time, the Company has not adopted: (i) a written diversity policy relating to the identification and nomination of members of designated groups; nor (ii) a target number or percentage, or range, for members of designated groups.

Governance

The Company's Corporate Disclosure Policy assists in governance of the conduct of its directors, officers, spokespersons and employees as it relates to communications with the public. Multiple Company policies form a code of conduct for its directors, officers, employees and consultants. The Board of Directors believes that the Company's size also facilitates informal review of and discussions with employees and consultants. The Company has a whistleblower policy in place which is acknowledged by all employees upon hire, and which is periodically reviewed with all staff. A comprehensive anti-corruption policy ensures all relevant staff and consultants are aware and are trained appropriately. Relevant consultants are required to attest to compliance on a regular basis and all business opportunities are evaluated with this policy in mind. Directors are kept apprised of activities undertaken to minimize risk in this area. The Board of Directors monitors ethical conduct of the Company and ensures that it complies with applicable legal and regulatory requirements, including those of relevant securities commissions and stock exchanges. The fiduciary duties placed on individual directors by the Company's governing corporate legislation and the common law, as well as the restrictions placed by applicable corporate legislation on the individual director's participation in decisions of the Board of Directors in which the director has an interest, have been sufficient to ensure that the Board of Directors operates independently of management and in the best interests of the Company.

Next steps

Along with the ESG focus, FLYHT will focus on climate-related disclosures. This involves following international guidelines for reporting by the Task Force on Climate Related Disclosures (TCFD). It is anticipated that TCFD, or similar frameworks, will be required by stock exchanges shortly. Although as a TSX Venture Issuer FLYHT's implementation effort at this point will be largely voluntary, the Board of Directors believes it is important to assess material implications for the business around climate change risks and opportunities. Jurisdictions around the world are requiring that companies report within disclosure frameworks and it is a strategic decision to evaluate the Company's efforts using a framework such as TCFD. FLYHT anticipates next steps to include a review of climate change risks and opportunities, and an assessment of finance and investment policy alignment with environmental goals. In the coming years FLYHT plan to be able to report on our material climate risks and monitor further mandates and requirements for disclosure.

2022 Achievements and Activities

- In January 2022 FLYHT signed a contract with Coral Jet to equip the airline's future fleet of seven A319/320 aircraft with AFIRS and to provide SaaS services from FLYHT's Actionable Intelligence suite of applications. The contract is expected to generate revenue of approximately $760k USD over the five-year contract term, assuming the Company provides services over the full term of the contract.
- In March 2022 the Company acquired 100% of the shares of CrossConsense GmbH & Co. KG ("CrossConsense"). This acquisition is expected to accelerate FLYHT's strategic roadmap to build out a maintenance software capability, and fulfilled the Company's goal to increase its presence in the European and Middle East markets.
- In March 2022 FLYHT announced a partnership with Swoop Airlines to reduce emissions by eliminating non-essential Auxiliary Power Unit (APU) usage, partially funded through a grant of $150k from the Alberta Innovates Product Demonstration Program.
- In May 2022 FLYHT partnered with MBS Electronic Systems to develop a secure wireless avionics software and onboard data loading solution prototype.
- The Company received a purchase order in May 2022 for US $5.65 million from a long-time OEM partner for the delivery of Iridium modems and associated license fees.
- Coral Jet signed an agreement with FLYHT to be the launch customer for the AFIRS Edge A320 platform.
- In June 2022 FLYHT announced the completion of the first AFIRS installation on the China Express ARJ-21 aircraft.
- In September 2022, the Company made two additions to its leadership team, Scott Chambers (Vice President Sales and Marketing) and Murray Skelton (Vice President Business Development).
- FLYHT joined IATA's Aviation Cyber Security Strategic Partnerships program.
- The Company retained Satichi Consulting Inc. for corporate development and capital markets communications services.
- FLYHT achieved Amazon Web Services (AWS) Travel and Hospitality Competency status.
- FLYHT signed a reseller agreement with SITA for its AIRCOM® Cockpit Services, initially focusing on developing the market for Iridium Certus.

Results of Operations

Selected Results

	Q4 2022 $	Q3 2022 $	Q2 2022 $	Q1 2022 $
Assets	16,540,154	14,873,106	14,674,263	16,482,757
Non-current financial liabilities*	6,322,769	6,307,401	6,392,197	6,231,765
Revenue	7,241,758	6,725,373	4,881,372	5,030,657
Cost of sales	2,384,329	1,853,079	2,156,364	2,279,528
Gross profit	4,857,429	4,872,294	2,725,008	2,751,129
Gross profit %	67.1%	72.4%	55.8%	54.7%
Distribution expenses	1,661,256	1,531,091	1,339,537	1,379,783
Administration expenses	1,209,188	1,199,337	1,361,728	1,312,039
Research, development and certification engineering expenses	1,079,052	1,329,944	1,046,294	1,165,197
Results from operating activities	907,933	811,922	(1,022,551)	(1,105,890)
Depreciation and amortization	262,250	112,758	116,771	168,260
EBITDA*	1,170,183	924,680	(905,780)	(937,630)
Income (loss)	718,689	703,765	(1,141,140)	(1,284,347)
Income (loss) per share (basic)	0.01	0.02	(0.03)	(0.03)
Income (loss) per share (diluted)	0.01	0.02	(0.03)	(0.03)
	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 and amortization	179,234	170,950	172,306	170,398
EBITDA*	(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)

**See Non-GAAP Financial Measures*

Weighted Average Shares Outstanding

	2022 $	2021 $	2020 $
Basic	38,151,602	31,415,175	26,677,439
Diluted	38,383,777	31,691,451	28,457,009

Financial Position

Liquidity and Capital Resource

The Company's cash and cash equivalents at December 31, 2022 decreased to $2,647,650 from $4,520,591 at December 31, 2021, while increasing from $1,779,074 at September 30, 2022. The Company has an operating demand loan available through a Canadian chartered bank for up to a maximum of $2.0 million, drawn either in CAD or USD. The amount available under this facility was increased from $1.5 million in October 2022. 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, 2022.

The Company funded 2022 operations primarily through the use of cash reserves, cash proceeds received from sales, and funding obtained from the ERTC, Alberta Innovates, and WINN governmental programs.

	December 31, 2022 $	December 31, 2021 $	Variance $
Cash and cash equivalents	2,647,650	4,520,591	(1,872,941)
Trade and other receivables	5,127,338	1,590,473	3,536,865
Contract assets	121,046	151,616	(30,570)
Deposits and prepaid expenses	349,132	377,688	(28,556)
Inventory	1,385,048	1,683,006	(297,958)
Trade payables and accrued liabilities	(2,736,269)	(1,703,309)	(1,032,960)
Customer deposits	(376,668)	(609,555)	232,887
Contract liabilities	(922,952)	-	(922,952)
Loans and borrowings	(828,345)	(664,470)	(163,875)
Lease liability	(436,581)	(373,756)	(62,825)
Current tax liabilities	(10,541)	-	(10,541)
Working capital*	**4,318,858**	**4,972,284**	**(653,426)**

**See Non-GAAP Financial Measures*

As at April 12, 2023 FLYHT's issued and outstanding share capital was 38,806,774.

The consistent achievement of positive earnings is necessary before the Company can consistently improve liquidity. Positive earnings and operating cash flow in the final quarter of 2022 reflect recent progress in this area. 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 on an annual basis in both 2022 and 2021. At December 31, 2022, the Company had positive working capital of $4.3 million compared to positive $4.9 million as of December 31, 2021, a decrease of $0.6 million. The Company ended Q4 2022 with balances of $2.6 million in cash and cash equivalents and an undrawn credit facility of $2.0 million.

For the Company to continue as a going concern longer-term, it will need to consistently achieve profitability and positive operating cash flows. The Company plans to 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 consistent 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 elect 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 has been unprecedented. Starting in early 2020 FLYHT saw impact of the pandemic in revenue and trade receivable payments due to the impact of the pandemic on our customers. There has been recovery in our customer base, with aircraft re-commencing operations as well as receivable payments being made, although geographic differences in rates and timing of recovery continue to be seen. There is continued risk until such a time as the global aviation industry recovers fully.

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

Financial Instruments

The Company is exposed to fluctuations in the exchange rates between the Canadian dollar and other currencies, primarily the US dollar and the euro, 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, 2022.

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, or halt provision of service and support. The recoverability of the Company's receivables has been impacted by the consequences of the pandemic on the global airline industry, which has been reflected in the bad debt reserve. As at April 12, 2023 $4,685,811 of the balances outstanding at December 31, 2022 had been collected.

Contractual Obligations

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

December 31, 2022	**< 1 year $**	**1-2 years $**	**2-5 years $**	**> 5 years $**	**Total $**
Accounts payable	2,161,822	-	-	-	2,161,822
Compensation and statutory deductions	323,685	-	-	-	323,685
Accrued liabilities	250,762	-	-	-	250,762
Lease payments	436,581	455,774	1,165,601	1,103,715	3,161,671
Loans and borrowings	851,387	1,295,757	3,075,971	1,418,268	6,641,383
Total	**4,024,237**	**1,751,531**	**4,241,572**	**2,521,983**	**12,539,323**

Government Loans

Funding obtained via four governmental programs are included in the Loans and Borrowings totals on the Consolidated Statements of Financial Position.

Under the Strategic Aerospace and Defence Initiative (SADI), at December 31, 2022 the Company has an outstanding repayable balance of $1,030,934. 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 $181,493 was made in 2022 (2021: $157,820). The carrying value of the amount owing under this program at December 31, 2022 is $1,331,720 (December 31, 2021: $1,306,656).

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, with the final payment date pushed back to September 2025. Repayments in 2022 totaled $468,000 (2021: $468,000). The carrying value of the amount owing under this program at December 31, 2022 is $1,132,345 (December 31, 2021: $1,472,209).

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 was 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. The carrying value of the amount owing under this program at December 31, 2022 is $2,202,931 (December 31, 2021: $1,455,540).

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. Principal repayments in 2022 totaled $16,204 (2021: nil). The carrying value of the amount owing under this program at December 31, 2022 is $210,777 (December 31, 2021: $221,881).

A summary of the carrying value of the government loans as at December 31, 2022 and 2021 and changes during these three and twelve months is presented below.

	For the three months ended December 31			For the year ended December 31		
	2022 $	2021 $	Variance $	2022 $	2021 $	Variance $
Opening Balance	4,741,988	3,652,584	1,089,404	4,456,286	3,732,670	723,616
Received	278,209	529,084	(250,875)	947,368	1,275,370	(328,002)
Grant Portion	(142,676)	(162,266)	19,590	(324,926)	(277,169)	(47,757)
Interest accretion	126,576	120,553	6,023	474,580	442,036	32,544
Gain on payment deferral	-	439,194	(439,194)	-	(84,938)	84,938
Repayment	(126,324)	(122,863)	(3,461)	(675,535)	(631,683)	(43,852)
Carrying amount at December 31	**4,877,773**	**4,456,286**	**421,487**	**4,877,773**	**4,456,286**	**421,487**
Less current portion	828,345	664,470	163,875	828,345	664,470	163,875
Non-current portion	4,049,428	3,791,816	257,612	4,049,428	3,791,816	257,612

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 technical 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, 2022 and 2021. Payments were received for 4 installation kits in the fourth quarter of 2022 compared to 9 received in the fourth quarter of 2021. For the year ended December 31, 2022 payment was received for 64 installation kits, compared to 57 in 2021.

	Q4 2022 $	Q4 2021 $	Variance $	YTD 2022 $	YTD 2021 $	Variance $
Opening balance	713,369	534,911	178,458	609,555	492,679	116,876
Payments received	557,270	493,195	64,075	2,376,293	2,029,607	346,686
Recognized as revenue	(893,971)	(418,551)	(475,420)	(2,609,180)	(1,912,731)	(696,449)
Balance, December 31	**376,668**	**609,555**	**(232,887)**	**376,668**	**609,555**	**(232,887)**

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, the sale of weather data, and hosting and support of maintenance systems and associated data. These fees are recognized as the service is provided each month. **Hardware** includes the income from hardware sales and related parts required to install the unit, spare units and installation parts. **Licensing** includes sales of modems with a related manufacturing license fee. **Technical Services** includes all services offered by the Company, including repairs, training services and other expertise.

Revenue sources

	Q4 2022 $	Q4 2021 $	Variance $	YTD 2022 $	YTD 2021 $	Variance $
SaaS	2,253,618	1,500,110	753,508	8,157,886	5,993,521	2,164,365
Hardware	1,217,860	590,975	626,885	4,720,204	3,394,228	1,325,976
Licensing	3,030,368	356,197	2,674,171	9,101,130	1,551,000	7,550,130
Technical Services	739,912	80,679	659,233	1,899,940	379,940	1,520,000
Total	**7,241,758**	**2,527,961**	**4,713,797**	**23,879,160**	**11,318,689**	**12,560,471**

For the year ended December 31, 2022, total revenue increased 111.0% from $11,318,689 in 2021 to $23,879,160 in 2022, with Q4 2022 seeing a 186.5% increase over Q4 2021.

SaaS revenue increased 50.2% in Q4 2022 over Q4 2021, with an annual variance of $2.2 million between 2022 and 2021. The addition of CrossConsense SaaS revenues contributed to these increases.

Hardware revenue in 2022 saw an increase year over year of 39.1%. There was an increase in Q4 2022 as compared to Q4 2021 of 106.1%.This was a result of a total of 69 installation kits being shipped in 2022, compared to 54 in 2021. For the quarter, 16 kits were shipped in Q4 2022 compared to 9 in Q4 2021.

Licensing revenue increased $2.7 million from Q4 2021 and by $7.6 million for the year due to increases in the number of modems and associated license fees ordered for delivery in comparative periods, as the Company delivered on an order received in Q2 2022 for $5.65 million USD.

Technical Services revenue increased 400% for 2022 compared to 2021 and 817% for Q4 2022 compared to Q4 2021 as a result of the addition of CrossConsense services to this revenue category. Revenues in this 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 2022	Q3 2022	Q2 2022	Q1 2022	Q4 2021	Q3 2021	Q2 2021	Q1 2021
SaaS	2,253,618	2,073,284	2,155,912	1,675,072	1,500,110	1,507,366	1,446,221	1,539,825
Hardware	1,217,860	480,064	912,682	2,109,598	590,975	567,356	1,404,193	831,704
Licensing	3,030,368	3,536,153	1,399,903	1,134,706	356,197	1,004,698	7,924	182,181
Technical Services	739,912	635,872	412,875	111,281	80,679	93,911	67,784	137,565
Total	**7,241,758**	**6,725,373**	**4,881,372**	**5,030,657**	**2,527,961**	**3,173,331**	**2,926,122**	**2,691,275**

Geographical distribution of revenue sources were:

	Q4 2022		Q4 2021		YTD 2022		YTD 2021	
	$	%	$	%	$	%	$	%
United States & Mexico	3,782,947	52.2	984,455	38.9	12,224,340	51.2	4,428,683	39.1
Asia	239,138	3.3	211,676	8.4	975,081	4.1	602,743	5.3
China	593,659	8.2	474,510	18.8	1,963,049	8.2	2,051,290	18.1
Middle East	134,681	1.9	246,920	9.8	607,445	2.5	1,006,363	8.9
Canada	638,758	8.8	263,172	10.4	2,900,423	12.1	1,976,939	17.5
Australia	200,242	2.8	61,956	2.4	472,278	2.0	267,700	2.4
Africa	126,699	1.7	184,754	7.3	495,874	2.1	549,019	4.8
Europe	1,510,949	20.9	85,212	3.4	4,069,501	17.1	359,306	3.2
South/Central America	14,685	0.2	15,306	0.6	171,169	0.7	76,646	0.7
Total	**7,241,758**	**100.0**	**2,527,961**	**100.0**	**23,879,160**	**100.0**	**11,318,689**	**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 2022 was 32.9% compared to 50.5% in Q4 2021. Gross profit increased from 57.2% in 2021 to 63.7% in 2022 due to differences in the mix of revenue sources. Gross profit will fluctuate quarter over quarter depending on the mix of revenue categories.

Gross profit for the last eight quarters was:

	Q4 2022	Q3 2022	Q2 2022	Q1 2022	Q4 2021	Q3 2021	Q2 2021	Q1 2021
Gross Profit %	67.1	72.4	55.8	54.7	49.5	68.2	52.4	56.5
Cost of Sales	32.9	27.6	44.2	45.3	50.5	31.8	47.6	43.5

Distribution Expenses (Recovery)

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

Major Category	Q4 2022 $	Q4 2021 $	Variance $	YTD 2022 $	YTD 2021 $	Variance $
Salaries and benefits	1,046,312	766,055	280,257	4,136,208	3,294,529	841,679
Share based compensation	27,640	16,252	11,388	57,674	47,058	10,616
Contract labour	270,044	149,491	120,553	880,600	661,853	218,747
Office	70,483	50,704	19,779	219,720	231,233	(11,513)
Travel	109,759	43,502	66,257	266,070	107,017	159,053
Equipment and maintenance	57,054	9,796	47,258	177,730	39,147	138,583
Depreciation and amortization	43,774	95,240	(51,466)	204,962	365,120	(160,158)
Marketing	81,378	13,892	67,486	158,281	40,737	117,544
Government grants	-	(15,755)	15,755	(222,108)	(455,987)	233,879
Bad debt reserve	(45,188)	(159,185)	113,997	32,530	(460,965)	493,495
Total	**1,661,256**	**969,992**	**691,264**	**5,911,667**	**3,869,742**	**2,041,925**

Distribution expenses have increased 71.3% from Q4 2021 to Q4 2022 and 52.8% year over year, due mainly to the addition of CrossConsense personnel and associated expenses as of March 2022.

Both **Salaries and benefits** and **Contract labour** increased in the quarter and year to date due to additional staff mainly with the addition of the CrossConsense workforce, as well as an increased emphasis on the business development of new SaaS solutions to support our customers in their post-pandemic recovery plans.

Travel increased in Q4 2022 compared to Q4 2021 reflecting a corresponding YTD trend, with an increase in in-person meetings and conferences as compared to 2021.

Equipment and maintenance have increased YTD 2022 compared to YTD 2021 with the addition of costs related to CrossConsense's third-party server hosting facility. These costs also contribute to the increase in these expenses between Q4 2021 and Q4 2022.

Depreciation and amortization was lower in 2022 than 2021, as leased premises in Colorado were downsized at the end of the lease agreement term to align with a reduction in space requirements for FLYHT's US operations.

Marketing expenses have increased in 2022 as a result of increased participation in tradeshows as compared to 2021.

Government grants in 2021 comprised 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. Grants received in 2022 consisted of government funding from the United States' ERTC program. Differences in funding levels over time are reflective of variances in eligible expenses as well as changes in government funding made available under programs in each respective period.

Bad debt reserve quarter over quarter and YTD variances reflect differences in bad debt estimates in each period, with both Q4 2021 and 2022 showing recoveries of previously reserved amounts.

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 2022 $	Q4 2021 $	Variance $	YTD 2022 $	YTD 2021 $	Variance $
Salaries and benefits	250,159	328,830	(78,671)	1,712,234	1,197,969	514,265
Share based compensation	43,935	34,006	9,929	101,355	126,601	(25,246)
Contract labour	238,522	183,993	54,529	1,179,042	720,439	458,603
Office	172,733	135,814	36,919	672,276	570,779	101,497
Legal fees	17,990	212,552	(194,562)	173,751	289,829	(116,078)
Audit and accounting	142,187	75,520	66,667	350,840	242,939	107,901
Investor relations	22,002	32,196	(10,194)	145,091	126,500	18,591
Travel	35,425	22,274	13,151	153,295	58,011	95,284
Equipment and maintenance	96,855	69,215	27,640	348,842	307,012	41,830
Depreciation and amortization	178,107	20,804	157,303	273,445	101,533	171,912
Government grants	-	(38,442)	38,442	(48,258)	(368,392)	320,134
Other	11,273	9,774	1,499	20,379	10,489	9,890
Total	**1,209,188**	**1,086,536**	**122,652**	**5,082,292**	**3,383,709**	**1,698,583**

Administration expenses increased by 50.2% from full year 2021 to 2022, and 11.3% Q4 2022 compared to Q4 2021, mainly due to the addition of CrossConsense personnel and expenses associated with the March 2022 acquisition, one time contractor costs and higher government funding in 2021 than was available to the company in 2022.

Salaries and benefits have increased year to date due to additional staff engaged in post-pandemic recovery, as well as a reduction in allocation of administrative staff efforts deployed in support of research and development activities. Q4 2022 saw a reduction due to changes in the workforce that occurred during the quarter.

Contract labour increases from 2021 to 2022 for both the year and quarter related to advisory services contracted in support of CrossConsense integration activities as well as increased investor relations efforts.

Office expenses have increased for both the year and quarter with the addition of CrossConsense related expenses as well as a rise in insurance costs due to a combination of market conditions and contractual requirements.

Legal expenses have decreased for the quarter and year as the costs incurred in 2021 for the acquisition of CrossConsense did not re-occur at the same level in 2022.

Audit and accounting expenses have increased in 2022 and the fourth quarter as compared to 2021 due to the requirement for additional support to prepare regulatory filings in Germany, and acquisition valuation and integration evaluation and substantiation.

Travel increased throughout 2022 and the fourth quarter with an increase in in-person meetings and conferences as compared to 2021.

Depreciation and amortization has increased during the fourth quarter and overall 2022 due to the amortization of newly acquired intangible assets from the CrossConsense business combination.

Government grants in 2021 comprised 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. Grants received in 2022 consisted of government funding from the United States' ERTC program. Differences in funding levels over time are reflective of variances in eligible expenses as well as changes in government funding available under 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 2022 $	Q4 2021 $	Variance $	YTD 2022 $	YTD 2021 $	Variance $
Salaries and benefits	1,056,219	1,003,732	52,487	4,359,273	4,247,751	111,522
Share based compensation	6,586	4,308	2,278	19,870	20,432	(562)
Contract labour	115,497	54,717	60,780	441,551	319,409	122,142
Office	38,209	49,112	(10,903)	138,624	206,066	(67,442)
Travel	12,682	862	11,820	54,035	24,638	29,397
Equipment and maintenance	56,103	22,208	33,895	118,477	44,842	73,635
Components	8,562	8,288	274	45,186	17,368	27,818
Depreciation and amortization	40,369	63,190	(22,821)	181,632	226,236	(44,604)
SR&ED credit	-	-	-	(148,637)	-	(148,637)
Government grants	(255,175)	(92,098)	(163,077)	(589,663)	(665,445)	75,782
Other	-	5,000	(5,000)	139	5,904	(5,765)
Total	**1,079,052**	**1,119,319**	**(40,267)**	**4,620,487**	**4,447,201**	**173,286**

Research and Development expenses were 3.6% lower in Q4 2022 compared to the prior year's fourth quarter, and overall experienced a 3.9% increase year over year. Overall costs were offset by the refundable portion of the SR&ED credit available through the Canadian government, as well as other government grant funding. Research and development costs vary according to specific project requirements.

Salaries and benefits and **Contract labour** expenses increased in 2022 to meet the requirements of R&D initiatives, as the Company continues to invest in the Actionable Intelligence suite of products and in the AFIRS Edge.

The **SR&ED credit** recognized in 2022 reflected a return to eligible expenses under this Canadian governmental program. Expenses formerly SR&ED eligible were funded instead by the WINN program between 2018 and 2022.

Government grants variances reflect 2021 pandemic support received via Canadian government programs (CEWS, CERS and HASCAP). Grants received in 2022 consisted of government funding from the United States' ERTC program and the Alberta Innovates program, and in differing levels of expenses eligible for funding under the WINN program between 2022 and 2021. 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 2022 $	Q4 2021 $	Variance $	YTD 2022 $	YTD 2021 $	Variance $
Interest income	(13,336)	(4,368)	(8,968)	(26,576)	(17,581)	(8,995)
Net foreign exchange loss (gain)	61,648	(2,984)	64,632	(13,741)	(1,980)	(11,761)
Bank service charges	12,009	7,870	4,139	39,217	32,796	6,421
Other loss (gain)	-	413,104	(413,104)	-	(84,938)	84,938
Interest expense	25,650	23,740	1,910	110,426	114,054	(3,628)
Government loan accretion	126,573	83,782	42,791	474,580	433,274	41,306
Debenture interest and accretion	-	-	-	-	152,248	(152,248)
Net finance costs	**212,544**	**521,144**	**(308,600)**	**583,906**	**627,873**	**(43,967)**

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 and the euro. A strengthening of the Canadian dollar in Q4 2022 gave rise to foreign exchange losses in Q4 2022 compared to foreign exchange gains in Q4 2021 on U.S. dollar denominated sales and purchases, in combination with fluctuations in U.S. denominated assets and liabilities.

Other loss (gain) reflects the 2021 recognition of the benefit derived from payment deferral of the Company's government loans.

Debenture interest relates to the convertible debenture retired in 2021, which did not impact costs in 2022.

Net Income (loss) & EBITDA

Major Category	Q4 2022 $	Q4 2021 $	Variance $	YTD 2022 $	YTD 2021 $	Variance $
Net income (loss)	718,689	(2,444,054)	3,162,743	(1,003,033)	(5,859,206)	4,856,173
Finance costs	212,544	521,144	(308,600)	583,906	627,873	(43,967)
Tax expense	(23,300)	(1,324)	(21,976)	10,541	252	10,289
Depreciation and amortization	262,250	179,234	83,016	660,039	692,888	(32,849)
EBITDA	**1,170,183**	**(1,745,000)**	**2,915,183**	**251,453**	**(4,538,193)**	**4,789,646**

Business Combination

On March 17, 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 fulfills 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 $1.25 million in cash and 1.9 million common shares of the Company, valued at $1.235 million based on the fair value of each common share of the Company on the closing date of $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. Also included in the purchase price was other consideration valued at $192,000.

The Company incurred acquisition-related costs of $254,903 in due diligence and legal fees in 2021 and a further $150,121 in 2022. Additionally, in Q1 2022 finders' fees of $100,000 were paid to a third party in connection with the closing of the transaction. These costs have been included in Administrative Expenses.

The value allocated to the purchase price on the closing date was as follows:

	$
Cash paid	1,250,000
Common shares issued	1,235,000
Other consideration	192,000
Total consideration	**2,677,000**

The value of acquired assets and assumed liabilities were as follows:	$
Cash and cash equivalents	1,195,226
Trade and other receivables	590,512
Deposits and prepaid expenses	18,002
Property and equipment	9,322
Leased assets	278,467
Intangible asset: customer relationships	1,527,150
Intangible asset: tradename	217,281
Goodwill	837,258
Trade payables and accrued liabilities	(910,669)
Contract liabilities	(807,082)
Lease liability	(278,467)
Total consideration	**2,677,000**

Goodwill is attributable to the workforce of the acquired business as well as the expected opportunities for growth and synergies across products, staff, customers and geographies. Goodwill is allocated to the Company's single operating segment and is fully deductible for tax purposes.

The fair value of the assets acquired approximates book value and includes trade receivables of $409,985. The gross amount due under contracts is $413,398, of which $3,413 is anticipated to be uncollectible. The acquired business contributed revenues of $4,015,700 and earnings of $26,558 to the consolidated results for the period from March 17, 2022 to December 31, 2022. If the acquisition had occurred on January 1, 2022, consolidated proforma revenue and loss for the year ended December 31, 2022 would have been $24,765,919 and $1,030,715 respectively. The pro forma results are as follows:

	For the year ended December 31 2022 $
Revenue	24,765,919
Cost of sales	9,128,610
Gross profit	15,637,309
Distribution expenses	6,098,425
Administration expenses	5,215,898
Research, development and certification engineering expenses	4,769,723
Loss from operating activities	(446,737)
Net finance (income) costs	583,978
Loss for the period	(1,030,715)

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 pandemic on 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 consistent positive earnings and cash flows. The negative impact to the commercial air industry resulting from the COVID-19 pandemic was unprecedented. Starting in early 2020, FLYHT saw impact of the pandemic in revenue and trade receivable payments due to the impact of the pandemic on our customers. 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 have resulted in pressure to increase inventory holdings to mitigate potential schedule delays. There has been recovery in FLYHT's customer base, with aircraft re-commencing operations as well as receivable payments being made, although geographic differences in rates and timing of recovery continue to be seen. There is continued risk until such a time as the industry recovers fully.

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 tandem with that of our customers.

Policy and Regulation Risk
FLYHT customers operate in a variety of jurisdictions. Government policy and regulation changes could have impact on 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.

Employee Travel Risk
FLYHT staff are resuming global travel to meet with current and potential customers, some of whom are in jurisdictions where there may be increased risk to their personal safety and security. Travel requests are reviewed to ensure that staff are not travelling to locations that place them at undue risk. Travel safety and security resources are available to staff, including pre-departure risk assessments, travel briefings, safety awareness training, flight and hotel itinerary tracking, and access to a 24/7 contact for emergency travel medical assistance.

Installations at C-checks
Some of the Company's hardware products 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 software services many of FLYHT's early adopters and is implemented on redundant fixed server platforms in Canada. CrossConsense hosts software services on redundant fixed server platforms in Germany. Other services are implemented in the Amazon Web Services (AWS) cloud in various AWS regions. 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, result in a limited loss of data and cause various contractual breaches. To date, no such breach has knowingly occurred on any of the Company's systems. FLYHT continues make improvements to the security posture of systems, with a particular emphasis on transitioning systems to the cloud where it is contractually and financially viable.

Foreign Currency Fluctuations
The Company recognizes a majority of its sales in U.S. dollars with a lesser amount recognized in euros, so there is a risk of currency fluctuation. The major portion of operating and overhead costs are denominated in Canadian dollars, though certain payroll costs, costs of goods sold, marketing and distribution costs are U.S. dollar and euro 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, FLYHT's 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. The Company 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 as compared to pre-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

The high demand for technology workers, particularly in the areas of software development and data science, together with employee retention challenges faced by most companies, present challenges for FLYHT in attracting and retaining top talent. The pandemic related shift to remote-first workplaces has been both an opportunity and a threat to FLYHT. As FLYHT has embraced aspects of remote-first work, the Company has been able to 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 in 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.

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 and resiliency 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. FLYHT has also become an IATA Aviation Cyber Security Strategic Partner, which provides FLYHT a key opportunity to contribute to the development of industry standards, influence the cyber security regulatory environment for aviation, and to collaborate with key aviation cyber security leaders, including major international airlines, equipment manufactures, and international regulatory bodies.

FLYHT has responded to the increase in cyber threats within our recently implemented Security Management System (SecMS), 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

Since 2020, a company related to an officer of FLYHT has provided marketing services to FLYHT. A company related to a director of FLYHT provided financial consulting services from Q3 2021 to Q2 2022. 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:	**2022 $**	**2021 $**	**2022 $**	**2021 $**
Contract labour	30,000	62,000	153,271	185,970
Accounts payable	26,885	32,972	26,885	32,972

KPMG LLP
205 5th Avenue SW
Suite 3100
Calgary AB T2P 4B9
Tel 403-691-8000
Fax 403-691-8008
www.kpmg.ca

INDEPENDENT AUDITOR'S 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, 2022 and December 31, 2021
- 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, 2022 and December 31, 2021, 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 ***"Auditor's Responsibilities for the Audit of the Financial Statements"*** section of our auditor's 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 $1.0 million and $5.9 million for the years ended 2022 and 2021 respectively and as at December 31, 2022 has a deficit of $80 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2022. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matter described in the "***Material Uncertainty related to Going Concern***" section of the auditor's report, we have determined the matters described below to be the key audit matters to be communicated in our auditor's report.

Evaluation of the acquisition-date fair value of the customer relationship intangible assets acquired in the CrossConsense GmbH & Co. KG ("CrossConsense") acquisition

Description of the matter

We draw attention to Note 2(f) and Note 5 to the financial statements. On March 17, 2022, the Company acquired 100% of the shares of CrossConsense for total consideration of $2,677,000. Judgement was required in identifying the assets acquired and liabilities assumed and in the estimation of their fair values. In connection with the CrossConsense acquisition, the Company recorded customer relationship intangible assets with an acquisition-date fair value of $1,527,150. The Company engaged an independent valuation consultant to estimate the acquisition-date fair value of intangible assets. The acquisition-date fair value of the customer relationship intangible assets was determined using an estimated discounted future cash flows methodology which requires the Company to make significant assumptions. The significant assumptions used in determining the estimated acquisition-date fair value of the customer relationship intangible assets included forecasted revenue, forecasted cost of sales, the estimated customer attrition rates and discount rate.

Why the matter is a key audit matter

We identified the evaluation of the acquisition-date fair values of the customer relationship intangible assets acquired in the CrossConsense acquisition as a key audit matter. This matter created a significant risk of a material misstatement requiring significant auditor judgment to evaluate the results of our audit procedures regarding the Company's significant assumptions with respect to the estimated acquisition-date fair value of the customer relationship intangible assets. In addition, specialized skills and knowledge were required in evaluating the results of our audit procedures.

How the matter was addressed in the audit

The primary procedures we performed to address this key audit matter included the following:

- We compared the Company's forecasted revenue and forecasted cost of sales associated with the customer relationship intangible assets to 2021 and 2022 historical results of CrossConsense. We took into account changes in conditions and events affecting the customer relationships to assess the adjustments or lack of adjustments made by the Company in arriving at the assumptions.
- We inspected a selection of customer contracts and cost of sales invoices.
- We compared the estimated customer attrition rates to the historical customer attrition data of CrossConsense. We took into account changes in conditions and events affecting the customer relationships to assess the adjustments or lack of adjustments made by the Company in arriving at the assumptions.
- We evaluated the competence, capabilities and objectivity of the independent valuation consultant engaged by the Company.

We involved valuation professionals with specialized skills and knowledge, who assisted in:

- Evaluating the appropriateness of the discounted future cash flows methodology used by the Company to estimate the acquisition-date fair value of the customer relationship intangible assets
- Evaluating the appropriateness of the Company's discount rate, by comparing it against a discount rate range that was independently developed using a capital asset pricing model and weighted average cost of capital.

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 "2022 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 2022 Annual Report filed with the relevant Canadian Securities Commissions as at the date of this auditor's 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 auditor's 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.

Auditor's 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 auditor's 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.

KPMG

- 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 auditor's 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 auditor's 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.
- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this auditor's report is Stephanie Regier Pankratz.

KPMG LLP

Chartered Professional Accountants

Calgary, Canada
April 12, 2023

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31, 2022	December 31, 2021
	$	$
Assets		
Current assets		
Cash and cash equivalents (note 6)	2,647,650	4,520,591
Trade and other receivables (note 7)	5,127,338	1,590,473
Contract assets	121,046	151,616
Deposits and prepaid expenses	349,132	377,688
Inventory (note 8)	1,385,048	1,683,006
Total current assets	9,630,214	8,323,374
Non-current assets		
Property and equipment (note 9)	2,839,104	2,812,606
Goodwill (note 10)	867,726	-
Intangible assets (note 11)	1,886,029	264,218
Inventory (note 8)	1,317,081	1,849,988
Total non-current assets	6,909,940	4,926,812
Total assets	**16,540,154**	**13,250,186**
Liabilities		
Current liabilities		
Trade payables and accrued liabilities (note 12)	2,736,269	1,703,309
Customer deposits (note 13)	376,668	609,555
Contract liabilities (note 14)	922,952	-
Loans and borrowings (note 15)	828,345	664,470
Lease liability (note 16)	436,581	373,756
Tax liability	10,541	-
Total current liabilities	5,311,356	3,351,090
Non-current liabilities		
Loans and borrowings (note 15)	4,049,428	3,791,816
Lease liability (note 16)	2,273,341	2,128,919
Provisions (note 17)	11,087	13,850
Total non-current liabilities	6,333,856	5,934,585
Total liabilities	**11,645,212**	**9,285,675**
Equity		
Share capital (note 18)	72,427,102	70,779,594
Warrants (note 18)	-	954,535
Contributed surplus	12,462,645	11,421,730
Cumulative translation adjustment	147,829	(51,747)
Deficit	(80,142,634)	(79,139,601)
Total equity	4,894,942	3,964,511
Total liabilities and equity	**16,540,154**	**13,250,186**

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

	For the year ended December 31	
	2022 $	2021 $
Revenue (note 20)	23,879,160	11,318,689
Cost of sales	8,673,300	4,849,118
Gross profit	15,205,860	6,469,571
Distribution expenses (note 21)	5,911,667	3,869,742
Administration expenses (note 22)	5,082,292	3,383,709
Research, development and certification engineering expenses (note 23)	4,620,487	4,447,201
Loss from operating activities	(408,586)	(5,231,081)
Finance income (note 24)	(40,317)	(104,499)
Finance costs (note 24)	624,223	732,372
Net finance costs	583,906	627,873
Loss before income tax	(992,492)	(5,858,954)
Income tax expense (note 25)	(10,541)	(252)
Loss for the period	(1,003,033)	(5,859,206)
Foreign currency translation adjustment	199,576	(747)
Comprehensive loss for the period	(803,457)	(5,859,953)
Loss per share		
Basic and diluted loss per share (note 19)	(0.03)	(0.19)

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the years ended December 31, 2022 and 2021

	Share Capital $	Convertible Debenture $	Warrants $	Contributed Surplus $	Cumulative Translation Adjustment	Deficit $	Total Equity (Deficit) $
Balance at January 1, 2022	70,779,594	-	954,535	11,421,730	(51,747)	(79,139,601)	3,964,511
Loss for the period	-	-	-	-	199,576	(1,003,033)	(803,457)
Total comprehensive loss	-	-	-	-	199,576	(1,003,033)	(803,457)
Contributions by and distributions to owners							
Issue of common shares	1,235,000	-	-	-	-	-	1,235,000
Share-based payment transactions	-	-	-	178,899	-	-	178,899
Warrants expired	-	-	(954,535)	954,535	-	-	-
Share options exercised	412,508	-	-	(92,519)	-	-	319,989
Total contributions by and distributions to owners	1,647,508	-	(954,535)	1,040,915	-	-	1,733,888
Balance at December 31, 2022	72,427,102	-	-	12,462,645	147,829	(80,142,634)	4,894,942

	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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the year ended December 31 2022	2021
Cash flows from (used in) operating activities	$	$
Loss for the period	(1,003,033)	(5,859,206)
Depreciation, amortization and impairment of non-financial assets	660,039	692,889
Disposal of non-financial assets	54,145	3,854
Convertible debenture accretion & interest	-	152,248
Lease liability accretion	110,426	105,293
Grant portion of contributions from WINN	(324,926)	(246,153)
Grant portion of BDC (HASCAP) loan	-	(31,016)
Government grants	(535,103)	-
Gain on loan modification	-	(84,938)
Government loan accretion	474,580	433,274
Equity-settled share-based payment expenses	178,899	194,092
Issuance of common shares	-	165,000
Change in inventories	830,865	(314,326)
Change in trade and other receivables	(3,402,747)	(5,999)
Change in contract assets	33,002	40,578
Change in prepayments	28,556	166,364
Change in trade and other payables	1,092,624	(427,029)
Change in customer deposits	(232,887)	116,876
Change in contract liabilities	922,952	-
Change in provisions	14,482	298
Provision used	(6,839)	(10,523)
Unrealized foreign exchange loss	(14,166)	(1,980)
Other interest expense	-	8,760
BDC (HASCAP) interest paid	(9,838)	(5,863)
Debenture interest paid	-	(133,949)
Lease interest paid	(106,586)	(103,760)
Interest income	(26,576)	(17,581)
Interest received	24,144	13,279
Income tax expense	10,541	252
Income tax paid	(10,406)	(280)
Net cash from (used in) operating activities	(1,237,852)	(5,149,546)
Cash flows used in investing activities		
Acquisitions of property and equipment	(81,356)	(369,547)
Acquisition of CrossConsense	(1,442,000)	-
FLYHT WVSS-II intellectual property	-	(229,226)
Proceeds on the sale of property and equipment	100	482
Net cash used in investing activities	(1,523,256)	(598,291)
Cash flows from financing activities		
Net proceeds from private placement	-	6,565,901
Proceeds from exercise of share options	319,989	34,830
Payment of lease liabilities	(285,299)	(445,675)
Contributions from ERTC	422,603	-
Contributions from Alberta Innovates	112,500	-
Contributions from WINN	947,368	1,025,370
Contributions from BDC (HASCAP)	-	250,000
Repayment of convertible debenture	-	(1,674,359)
Repayment of borrowings	(665,697)	(625,820)
Net cash from financing activities	851,464	5,130,247
Net increase (decrease) in cash and cash equivalents	(1,909,644)	(617,590)
Cash and cash equivalents, beginning	4,520,591	5,127,963
Effect of exchange rate fluctuations on cash held	36,703	10,218
Cash and cash equivalents, ending	2,647,650	4,520,591

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2022 and 2021

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 and software solutions. 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 complements the AFIRS airborne systems with enterprise applications that help airlines improve operational efficiency and situational awareness including UpTime, FleetWatch, FuelSense and ClearPort services.

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 12, 2023.

(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, and of the Company's German subsidiary is the euro.

(d) COVID-19

Starting in early 2020 FLYHT saw impact of the pandemic in revenue and trade receivable payments due to the impact of the pandemic on our customers. There has been recovery in FLYHT's customer base, with aircraft re-commencing operations as well as receivable payments being made, although geographic differences in rates and timing of recovery continue to be seen. Various segments of the aviation industry were impacted differently throughout the pandemic, with the decline in commercial aviation being partially offset by an increased demand for cargo services. Geographic differences continue, 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.

Although recovery is evident in FLYHT's increase in revenues since the pandemic low in early 2021, the Company anticipates continued negative revenue impact in the near-term as compared to pre-pandemic periods due to customers rescheduling orders and continued decreases in air traffic in some areas of the world. This may continue to impact the Company's corresponding hardware and SaaS revenues, and have a potential impact on the Company's ability to collect accounts receivable. There is continued risk until such a time as the global aviation industry recovers fully. 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.

To preserve the Company's liquidity through this period of commercial aviation uncertainty, the following measures were 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.

In 2022, the Company recognized a total of $423 thousand (2021: $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 2022 and 2021 of $1.0 million and $5.9 million respectively and as at December 31, 2022 has a deficit of $80 million. In 2022, the Company used $1.2 million of cash in operations. At December 31, 2022, the Company had positive working capital of $4.3 million compared to positive $4.9 million as of December 31, 2021, a decrease of $0.6 million. The Company ended 2022 with balances of $2.6 million in cash and cash equivalents and an undrawn credit facility of $2.0 million.

For the Company to continue as a going concern longer-term, it will need to achieve profitability and positive operating cash flows. Positive earnings and operating cash flow in the final quarter of 2022 reflect recent progress in this area. 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 consistent 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 elect 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 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. 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.

7. 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.

8. Valuation of CrossConsense business combination: judgement was required in identifying the assets acquired and liabilities assumed and in the estimation of their fair values. The company engaged an independent valuation consultant to estimate the acquisition-date fair value of intangibles assets. The process employed widely accepted valuation techniques, with key assumptions being discount rates and anticipated future revenues and expenses, with growth rates specific to the acquired assets and assumed liabilities. Changes to assumptions could significantly impact the fair value of certain assets, such as intangible assets like customer relationships. The acquisition-date fair value of customer relationship intangible assets was determined using an estimated discounted future cash flow methodology which requires the Company to make significant assumptions. The significant assumptions used in determining the estimated acquisition-date fair value of intangible assets related to customer relationships included estimated customer attrition rates, forecasted revenue, forecasted cost of sales and discount rate.

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, CrossConsense GmbH and Co. KG, CrossConsense Services GmbH, FLYHT Corp., FLYHT India Corp., and AeroMechanical Services USA Inc. 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, FLYHT WVSS-II 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 Company 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 and goodwill

Intangible assets that are acquired by the Company and have finite useful lives are measured at cost less accumulated amortization and accumulated impairment losses. Intangible assets with finite lives are amortized using a straight-line basis over their estimated useful lives, which are reviewed each reporting period. Useful lives are as follows:

Customer relationships	5-10 years
Tradenames	10 years

Intangible assets acquired by the Company with indefinite useful lives and goodwill are measured at cost less accumulated impairment losses.

Goodwill is assessed for impairment annually. Intangible assets are tested annually for impairment or when there are indicators of impairment. An intangible asset is derecognized on disposal or impaired when no future economic benefits are expected from its use or disposal.

(h) Government assistance

(i) Government grants

Government grants, including forgiveness of government loans, related to qualifying research expenditures are recognized in profit or loss to match the costs that they are intended to compensate when there is reasonable assurance that the grant will be received, and the Company will comply with the conditions associated with the grant.

(ii) Government loans

Low-interest or interest-free government loans are measured initially at their fair value and interest is imputed on the loan in subsequent periods. The benefit of the below-market interest rate is measured as the difference between the fair value of the loan on initial recognition and the amount received. This benefit is accounted for according to the type of grant.

(i) Business combinations

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

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

(j) 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 3-5 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

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.

At each reporting date, the Company reviews the carrying amounts of its non-financial assets (other than goodwill, 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. The cash-generating units that goodwill has been allocated to are tested annually for impairment.

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 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 although may vary per purchase order. 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. Business Combination

On March 17, 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 fulfills 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 $1.25 million in cash and 1.9 million common shares of the Company, valued at $1.235 million based on the fair value of each common share of the Company on the closing date of $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. Also included in the purchase price was other consideration valued at $192,000.

The Company incurred acquisition-related costs of $254,903 in due diligence and legal fees in 2021 and a further $150,121 in 2022. Additionally, in Q1 2022 finders' fees of $100,000 were paid to a third party in connection with the closing of the transaction. These costs have been included in Administrative Expenses.

The value allocated to the purchase price on the closing date was as follows:

	$
Cash paid	1,250,000
Common shares issued	1,235,000
Other consideration	192,000
Total consideration	**2,677,000**

The value of acquired assets and assumed liabilities were as follows:	**$**
Cash and cash equivalents	1,195,226
Trade and other receivables	590,512
Deposits and prepaid expenses	18,002
Property and equipment	9,322
Leased assets	278,467
Intangible asset: customer relationships	1,527,150
Intangible asset: tradename	217,281
Goodwill	837,258
Trade payables and accrued liabilities	(910,669)
Contract liabilities	(807,082)
Lease liability	(278,467)
Total consideration	**2,677,000**

Goodwill is attributable to the workforce of the acquired business as well as the expected opportunities for growth and synergies across products, staff, customers and geographies. Goodwill is allocated to the Company's single operating segment and is fully deductible for tax purposes.

The fair value of the assets acquired approximates the book value and includes trade receivables of $409,985. The gross amount due under contracts is $413,398, of which $3,413 is anticipated to be uncollectible. The acquired business contributed revenues of $4,015,700 and earnings of $26,558 to FLYHT for the period from March 17, 2022 to December 31, 2022. If the acquisition had occurred on January 1, 2022, consolidated proforma revenue and loss for the year ended December 31, 2022 would have been $24,765,919 and $1,030,715 respectively. The pro forma results are as follows:

	For the year ended December 31 2022 $
Revenue	24,765,919
Cost of sales	9,128,610
Gross profit	15,637,309
Distribution expenses	6,098,425
Administration expenses	5,215,898
Research, development and certification engineering expenses	4,769,723
Loss from operating activities	(446,737)
Net finance (income) costs	583,978
Loss for the period	(1,030,715)

6. Cash and cash equivalents

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

7. Trade and other receivables

	December 31, 2022 $	**December 31, 2021 $**
Trade receivables (note 26)	5,030,473	1,588,011
Non-trade receivables and accrued receivables	96,865	2,462
Total	**5,127,338**	**1,590,473**

Non-trade receivables consist of input tax credits. The Company's exposure to credit and currency risks is disclosed in note 26.

8. Inventory

	December 31, 2022 $	**December 31, 2021 $**
Raw materials	1,601,058	2,235,640
Work in progress	-	15,491
Finished goods	1,101,071	1,281,863
Balance	**2,702,129**	**3,532,994**
Less current portion	(1,385,048)	(1,683,006)
Non-current portion	1,317,081	1,849,988

In 2022 Raw materials and Finished goods recognized as cost of sales amounted to $3,261,573 (2021: $2,229,777). Included in this amount was a write down of inventories amounting to $598,002 (2021: $382,992) resulting from the review of slow-moving inventory parts. All inventories are pledged as security for the bank loan (note 15).

9. Property and equipment

2022	Computers and Software $	Equipment $	Leasehold Improvements $	Leased Assets $	Total $
Cost					
Balance at January 1	829,347	784,915	17,687	3,374,835	5,006,784
Additions	67,461	11,924	5,322	482,209	566,916
Disposals	(26,415)	(5,880)	(18,830)	(1,069,182)	(1,091,105)
Cumulative translation adjustment	3,710	2,004	1,143	63,113	69,970
Balance at December 31	874,103	792,963	5,322	2,850,975	4,552,565
Accumulated Depreciation					
Balance at January 1	607,336	293,008	16,370	1,277,464	2,194,178
Depreciation for the year	73,719	53,927	2,408	388,191	518,245
Disposals	(19,336)	(2,991)	(18,830)	(1,058,948)	(1,070,903)
Cumulative translation adjustment	10,233	7,486	335	53,887	71,941
Balance at December 31	671,952	351,430	283	660,594	1,713,461
Carrying Amounts					
At January 1	222,011	491,907	1,317	2,097,371	2,812,606
At December 31	**202,151**	**441,533**	**5,039**	**2,190,381**	**2,839,104**

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**

As of December 31, 2022, all property and equipment are pledged as security for the bank loan (note 15).

10. Goodwill

	December 31, 2022 $	December 31, 2021 $
Gross carrying amount		
Balance at January 1	-	-
Acquired through business combination (note 5)	837,258	-
Cumulative translation adjustment	30,468	-
Balance at December 31	867,726	-
Accumulated impairment		
Balance at January 1	-	-
Impairment loss	-	-
Balance at December 31	-	-
Carrying Amounts		
At January 1	-	-
At December 31	**867,726**	**-**

11. Intangible assets

2022	Licenses	Customer Relationships	Tradenames	Intellectual Property	Total
	$	$	$	$	$
Cost					
Balance at January 1	34,992	-	-	229,226	264,218
Acquired through business combination (note 5)	-	1,527,150	217,281	-	1,744,431
Disposals	(34,992)	-	-	-	(34,992)
Cumulative translation adjustment	-	55,573	7,907	-	63,480
Balance at December 31	-	1,582,723	225,188	229,226	2,037,137
Accumulated Amortization					
Balance at January 1	-	-	-	-	-
Amortization for the year	-	125,064	16,730	-	141,794
Impairment loss	-	-	-	-	-
Disposals	-	-	-	-	-
Cumulative translation adjustment	-	8,214	1,100	-	9,314
Balance at December 31	-	133,278	17,830	-	151,108
Carrying Amounts					
At January 1	34,992	-	-	229,226	264,218
At December 31	**-**	**1,449,445**	**207,358**	**229,226**	**1,886,029**

2021	Licenses	Customer Relationships	Tradenames	Intellectual Property	Total
	$	$	$	$	$
Cost					
Balance at January 1	34,992	-	-	-	34,992
Additions	-	-	-	229,226	229,226
Disposals	-	-	-	-	-
Cumulative translation adjustment	-	-	-	-	-
Balance at December 31	34,992	-	-	229,226	264,218
Accumulated Amortization					
Balance at January 1	-	-	-	-	-
Amortization for the year	-	-	-	-	-
Disposals	-	-	-	-	-
Cumulative translation adjustment	-	-	-	-	-
Balance at December 31	-	-	-	-	-
Carrying Amounts					
At January 1	34,992	-	-	-	34,992
At December 31	**34,992**	**-**	**-**	**229,226**	**264,218**

The license purchased from Bombardier allowing FLYHT access to technical documents for their CRJ aircraft was derecognized in 2022, with consideration given to the usefulness of the data in future FLYHT applications and recent changes in Bombardier's business.

Customer relationships and tradenames were acquired in 2022 as part of CrossConsense business combination (note 5). The remaining amortization period for customer relationships and tradenames is 9 years.

Intellectual property includes the value of the FLYHT WVSS-II intellectual property obtained in 2021.

Intangible assets are pledged as security for the bank loan (note 15).

12. Trade payables and accrued liabilities

	December 31, 2022 $	December 31, 2021 $
Trade payables	2,161,822	990,053
Compensation and statutory deductions	323,685	309,082
Accrued liabilities	250,762	404,174
Balance, December 31	**2,736,269**	**1,703,309**

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

13. Customer deposits

	December 31, 2022 $	December 31, 2021 $
Opening balance	609,555	492,679
Payments received	2,376,293	2,029,607
Recognized as revenue	(2,609,180)	(1,912,731)
Balance, December 31	**376,668**	**609,555**

Customer deposits are recognized for non-refundable deposits received prior to hardware and technical services being delivered to a customer. Customer deposits are recognized into revenue when hardware is shipped, or technical services are provided to the customer.

14. Contract liabilities

	December 31, 2022 $	December 31, 2021 $
Opening balance	-	-
Acquired (CrossConsense business combination)	807,082	-
Cumulative translation adjustment	29,370	-
Payments received	1,027,392	-
Recognized as revenue	(940,892)	-
Balance, December 31	**922,952**	**-**

Contract liabilities are recognized for consideration received prior to SaaS services being provided to a customer. This balance relates to CrossConsense customer contracts that require upfront payment for services delivered over the subsequent twelve-month period. Contract liabilities are recognized into revenue when services have been provided to the customer.

15. Loans and Borrowings

Bank loan

The Company has an operating demand loan available through a Canadian chartered bank for up to a maximum of $2.0 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, 2021 and 2022.

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 2022 totaled $468,000 (2021: $468,000). The carrying value of the amount owing under this program at December 31, 2022 is $1,132,345 (December 31, 2021: $1,472,209).

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 was 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. The carrying value of the amount owing under this program at December 31, 2022 is $2,202,931 (December 31, 2021: $1,455,540).

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 $181,493 was made in 2022 (2021: $157,820). The carrying value of the amount owing under this program at December 31, 2022 is $1,331,720 (December 31, 2021: $1,306,656).

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. Principal repayments in 2022 totaled $16,204 (2021: nil). The carrying value of the amount owing under this program at December 31, 2022 is $210,777 (December 31, 2021: $221,881).

A summary of the carrying value of the government loans as at December 31, 2022 and changes during the year and comparative year are presented below.

	2022 Total	2021 Total
Balance January 1	4,456,286	3,732,670
Contributions received	947,368	1,275,370
Grant portion	(324,926)	(277,169)
Interest accretion	474,580	442,036
Gain on loan modification	-	(84,938)
Repayment	(675,535)	(631,683)
Balance December 31	**4,877,773**	**4,456,286**
Less current portion	(828,345)	(664,470)
Non-current portion	4,049,428	3,791,816

16. Lease liability

On March 1, 2020 the leasing arrangement for the new corporate head office of FLYHT commenced. 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.

In conjunction with the CrossConsense business combination that occurred on March 17, 2022 FLYHT inherited the leasing arrangement for CrossConsense's head office. Under German GAAP no lease liability was calculated previously. The remaining term of the lease upon acquisition is 3.5 years, with an annual payment amount of €64,296 EUR ($89,936 CAD) in 2022 and consecutive annual amounts to be adjusted based on Germany's annual CPI. At acquisition, the Company recognized a right of use asset of €199,077 EUR ($278,466 CAD) 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 remaining lease term of 42 months.

On April 16, 2022, a lease agreement was entered into for server equipment at the FLYHT corporate head office. The terms of the lease include a 5-year contract term with monthly payments. At inception, the Company recognized a right of use asset of $147,407 and a lease liability for the same amount. The value was determined using the discount rate implicit in the lease, over the lease term of 60 months. Amortization of the asset and accretion of the associated lease liability commenced on September 1, 2022.

	2022 $	2021 $
Opening balance	2,502,675	2,837,142
Additions	482,209	112,628
Finance costs (note 24)	110,426	105,293
Lease payments	(395,725)	(549,435)
Disposals	(10,234)	-
Cumulative translation adjustment	20,571	(2,953)
Balance, December 31	**2,709,922**	**2,502,675**
Less current portion	(436,581)	(373,756)
Non-current portion	**2,273,341**	**2,128,919**

17. Provisions

Product warranty	2022 $	2021 $
Balance January 1	13,850	24,103
Provision made during the period	5,744	5,959
Provision extinguished	(3,162)	(1,928)
Provision re-evaluation	1,494	(3,761)
Provision used during the period	(6,839)	(10,523)
Balance, December 31	**11,087**	**13,850**

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.

18. 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, 2021	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**
Exercise of employee options	487,598	412,508
Common shares issued	1,900,000	1,235,000
Balance December 31, 2022	**38,804,474**	**72,427,102**

Option exercises during 2022 have resulted in the Company issuing a total of 487,598 shares for total proceeds of $319,989.

Stock option plan

The Company grants stock options to its directors, officers, employees and consultants. The following stock options were granted in 2022:

- 518,715 stock options to employees, officers and directors under the stock option plan with an exercise price of $0.74. The options will vest in equal tranches on May 4, 2023, 2024 and 2025 and will expire on May 4, 2026.
- 300,000 stock options to certain employees under the stock option plan with an exercise price of $0.64. The options vested immediately on June 30, 2022 and were fully exercised on July 14, 2022.
- 55,000 stock options to certain officers and consultants under the stock option plan with an exercise price of $0.82. The options will vest in equal tranches on August 10, 2023, 2024 and 2025 and will expire on August 10, 2026.
- 120,000 stock options to a consultant with an exercise price of $0.82. The options will vest in equal tranches on November 10, 2022, February 10, May 10, and August 10, 2023. These options are set to expire on August 10, 2026.

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, 2022, there were 3,880,447 (2021: 3,641,688) common shares reserved for this purpose.

A summary of the Company's outstanding stock options as at December 31, 2022 and 2021 and changes during these years is presented below.

	2022		2021	
	Number of options	**Weighted average exercise price $**	**Number of options**	**Weighted average exercise price $**
Outstanding, January 1	1,803,481	0.83	1,373,333	0.93
Options granted	993,715	0.72	608,315	0.63
Options exercised	(487,598)	0.66	(59,034)	0.59
Options expired	(574,388)	1.03	(119,133)	1.17
Outstanding December 31	**1,735,210**	**0.75**	**1,803,481**	**0.83**
Unvested options	1,034,263	0.67	1,002,939	0.66
Outstanding and exercisable, December 31	**700,947**	**0.81**	**800,542**	**1.03**

The exercise prices for options outstanding at December 31, 2022 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	0.6	160,000	0.6
$0.52	6,240	1.8	4,160	1.8
$0.57	301,876	2.3	86,736	2.3
$0.59	373,679	1.5	244,276	1.5
$0.69	30,000	1.8	15,000	1.8
$0.74	468,880	3.3	-	-
$0.82	160,000	3.6	-	-
$0.93	43,760	2.6	-	-
$1.50	190,775	0.4	190,775	0.4
Total	**1,735,210**	**2.2**	**700,947**	**1.1**

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 (2021: $0.26). The fair value of the options granted and valued using the Black-Scholes option pricing model were valued with the following weighted average assumptions:

	2022	**2021**
Risk-free interest rate	2.93%	0.63%
Expected life (years)	1.76	1.86
Volatility in the price of the Company's common shares	64%	84%
Dividend yield rate	0.00%	0.00%

Warrants	Number of warrants	Weighted average exercise price	Value
		$	$
Outstanding January 1, 2021	3,036,237	1.69	1,195,396
Warrants expired	(368,627)	0.25	(240,861)
Outstanding December 31, 2021	**2,667,610**	**1.25**	**954,535**
Warrants expired	(2,667,610)	1.25	(954,535)
Outstanding December 31, 2022	**-**	**-**	**-**

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.

19. Earnings per share

The calculation of basic and diluted earnings per share for the year ended December 31, 2022 was based on a weighted average number of common shares outstanding of 38,151,602 (basic & diluted) (December 31, 2021: 31,415,175 basic and diluted). Both calculations of diluted earnings per share did not include outstanding stock options (nor warrants for the 2021 calculation) because they would be anti-dilutive.

20. 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, except for:

- Property and equipment valued at $5,018 (Denver CO, USA) and $6,087 (Frankfurt, Germany)
- Leased premises valued at $226,758 (Frankfurt, Germany)

	For the year ended December 31	
	2022	**2021**
	$	**$**
United States & Mexico	12,224,340	4,428,683
Asia	975,081	602,743
China	1,963,049	2,051,290
Middle East	607,445	1,006,363
Canada	2,900,423	1,976,939
Australia	472,278	267,700
Africa	495,874	549,019
Europe	4,069,501	359,306
South/Central America	171,169	76,646
Total	**23,879,160**	**11,318,689**

The following shows revenue per major product and service categories.

	For the year ended December 31	
	2022	**2021**
	$	**$**
SaaS	8,157,886	5,993,521
Hardware	4,720,204	3,394,228
Licensing	9,101,130	1,551,000
Technical Services	1,899,940	379,940
Total	**23,879,160**	**11,318,689**

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 fees are recognized as the service is provided each month.

Hardware includes the income from hardware sales and related parts required to install the unit, spare units, spare installation parts, and Underfloor Stowage Units.

Licensing includes sales of modems with a related manufacturing license fee.

Technical Services includes services offered by the Company, including repairs and other expertise. The Company has not disclosed 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 was $3,106,383 CAD as of December 31, 2022.

Major customers

Revenues from the two largest customers represent approximately 46.1% of the Company's total revenues for the year ended December 31, 2022 (2021: 28.3%).

21. Distribution expenses

	For the year ended December 31 2022 $	2021 $
Salaries and benefits	4,136,208	3,294,529
Stock based compensation	57,674	47,058
Contract labour	880,600	661,853
Office	219,720	231,233
Travel	266,070	107,017
Equipment and maintenance	177,730	39,147
Depreciation and amortization	204,962	365,120
Marketing	158,281	40,737
Other government grants	(222,108)	(455,987)
Other	32,530	(460,965)
Total	**5,911,667**	**3,869,742**

Other government grants relate to amounts received from the United States government under the Employee Retention Tax Credit ("ERTC"), the Canadian government under the Scientific Research and Experimental Development ("SRED") tax refund program and the Alberta government under the Alberta Innovates PDP program of $422,603, $148,637 and $112,500 respectively. These government grants are included in Distribution, Administration and Research, development and certification engineering.

22. Administration expenses

	For the year ended December 31 2022 $	2021 $
Salaries and benefits	1,712,234	1,197,969
Stock based compensation	101,355	126,601
Contract labour	1,179,042	720,439
Office	672,276	570,779
Legal fees	173,751	289,829
Audit and accounting	350,840	242,939
Investor relations	145,091	126,500
Travel	153,295	58,011
Equipment and maintenance	348,842	307,012
Depreciation and amortization	273,445	101,533
Other government grants	(48,258)	(368,392)
Other	20,379	10,489
Total	**5,082,292**	**3,383,709**

23. Research, development and certification engineering expenses

	For the year ended December 31 2022	2021
	$	$
Salaries and benefits	4,359,273	4,247,751
Stock based compensation	19,870	20,432
Contract labour	441,551	319,409
Office	138,624	206,066
Travel	54,035	24,638
Equipment and maintenance	118,477	44,842
Components	45,186	17,368
Depreciation and amortization	181,632	226,236
Grant WINN loan (note 15)	(324,926)	(246,153)
Other government grants	(413,374)	(419,292)
Other	139	5,904
Total	**4,620,487**	**4,447,201**

24. Finance income and finance costs

	For the year ended December 31 2022	2021
	$	$
Interest income on bank deposits	26,576	17,581
Gain on modification of government loans	-	84,938
Net foreign exchange gain	13,741	1,980
Finance income	**40,317**	**104,499**
Bank service charges	39,217	32,797
Interest on lease liability	110,426	105,293
Interest on BDC loan	14,938	8,760
Government grant interest accretion	459,642	433,274
Debenture interest expense and accretion	-	152,248
Finance costs	**624,223**	**732,372**

25. Income tax expense

Current Tax Expense

	2022	2021
	$	$
Current income tax expense	10,541	252
Deferred income tax expense	-	-
	10,541	**252**

Deferred Tax Expense

Deferred tax liabilities

Recognized deferred tax assets (liabilities) are attributable to the following:	2022	2021
	$	$
PP&E	(25,929)	(110,366)
Reserves	-	(55,098)
Non-capital loss carry-forwards	25,929	165,464
Total	**-**	**-**

Unrecognized deferred tax assets

Deferred tax assets have not been recognized in respect of the following deductible temporary differences:	2022 $	2021 $
Intangible assets	60,550	-
Lease liabilities	2,477,337	2,502,308
Reserves and FX	929,784	9,804
Non-capital loss carry-forwards	45,488,281	45,166,302
Share issue costs	193,705	398,552
Scientific research and experimental development expenditures	24,649,934	24,277,407
Total	**73,799,591**	**72,354,373**

The Company has non-capital losses for income tax purposes of approximately $45,600,688 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, $472,587 were incurred in the US and $37,185 were incurred in Germany, both of which can be carried forward indefinitely. The remaining losses of $45,090,896 were incurred in Canada and will begin to expire in 2027.

Reconciliation of effective tax rate	2022 $	2021 $
Income (loss) before tax	(992,492)	(5,858,954)
Tax Rate	23%	23%
Expected income tax recovery	(228,273)	(1,347,560)
Change in rate	-	-
Non-deductible (taxable) amounts	46,245	6,187
Stock based compensation	41,147	44,641
Change in unrecognized temporary differences	151,422	1,296,984
	10,541	**252**

26. Financial risk management

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

Credit risk

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Management considers the demographics of the Company's customer base, including the default risk of the industry and country in which customers operate. Approximately 39% (2021: 30%) of the Company's 2022 revenue is attributable to transactions with a single customer. Historically there has not been a significant geographic concentration of outstanding balances, which typically has a minimizing impact on the Company's credit risk, however 63% of the receivables balances outstanding as of December 31, 2022 were concentrated within the USA, which would attribute more geographic risk than FLYHT's receivables profile usually contains.

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, 2022	**0-30 days**	**31-60 days**	**61-90 days**	**91+ days**	**Total**
	$	**$**	**$**	**$**	**$**
Accounts receivable	5,006,405	106,223	24,026	183,179	5,319,833
Impairment	(9,450)	-	-	(183,045)	(192,495)
Net receivable	**4,996,955**	**106,223**	**24,026**	**134**	**5,127,338**

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**

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, 2022 and 2021 was:

	2022	**2021**
	$	**$**
Balance, January 1	260,945	1,003,574
Provision	177,977	(233,811)
Recovered	(146,244)	(246,195)
Amounts written off	(100,183)	(262,623)
Balance, December 31	**192,495**	**260,945**

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, 2022	**Less than 1 year**	**1-2 years**	**2-5 years**	**> 5 years**	**Total**
	$	**$**	**$**	**$**	**$**
Accounts payable	2,161,822	-	-	-	2,161,822
Compensation and statutory deductions	323,685	-	-	-	323,685
Accrued liabilities	250,762	-	-	-	250,762
Lease payments	436,581	455,774	1,165,601	1,103,715	3,161,671
Loans and borrowings	851,387	1,295,757	3,075,971	1,418,268	6,641,383
Total	**4,024,237**	**1,751,531**	**4,241,572**	**2,521,983**	**12,359,323**

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 $165,821 (2021: $112,535) and a strengthening of the Canadian dollar would decrease net earnings by approximately $165,821 (2021: $112,535).

With the 2022 acquisition of CrossConsense, a portion of the Company's 2022 revenues and expenses were denominated in euros. Management estimates that a 1% weakening of the Canadian dollar relative to the euro would increase net earnings by approximately $15,650 and a strengthening of the Canadian dollar would decrease net earnings by approximately $15,650.

The Company mitigates its currency exposures by the international nature of the business where a portion of its costs are in currencies that naturally hedge a portion of U.S. dollar revenue. The Company has not engaged in activities to manage its cash flow foreign currency exposure through the use of financial instruments.

The Company has exposure to foreign exchange risk for working capital items denominated in U.S. dollars. At December 31, 2022, working capital denominated in U.S. dollars was approximately positive $3,092,158 (2021: positive $1,767,876). As a result, a 1% weakening of the Canadian dollar would increase net earnings by approximately $30,922 (2021: $17,679) and a strengthening of the Canadian dollar would decrease net earnings by approximately $30,922 (2021: $17,679).

The Company mitigates its working capital exposure by managing its U.S. dollar denominated working capital items to limit the requirement to convert either to or from U.S. dollars to fulfill working capital payment requirements.

The Company has exposure to foreign exchange risk for working capital items denominated in euros. At December 31, 2022, working capital denominated in euros was approximately positive $555,026. As a result, a 1% weakening of the Canadian dollar would increase net earnings by approximately $5,550 and a strengthening of the Canadian dollar would decrease net earnings by approximately $5,550.

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, 2022 and 2021 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 15). The fair values of financial assets and all other liabilities approximate carrying values due to the short-term nature of the instruments.

Capital management

FLYHT's objectives when managing capital are to safeguard the Company's ability to continue as a going concern. In order to maintain or adjust the capital structure, the Company may issue new debt, sell assets to reduce debt, or issue new shares. There were no changes in the Company's approach to capital management during the year.

27. Government grants

Contributions of $947,368 were received from WINN for the year ended December 31, 2022 (2021: $1,025,370).

In the year ended December 31, 2022, the Company recognized $422,603 in government financial relief related to COVID-19 (2021: $1,243,671). $222,108, $48,258 and $152,237 have been applied to offset associated expenses in Distribution, Administration, and Research & Development expenses respectively.

The $324,926 grant portion of the contributions received from WINN for the year ended December 31, 2022 (2021: $246,153) was offset against associated expenses in Research & Development expense.

28. Related parties

Since 2020, a company related to an officer of FLYHT has provided marketing services to the Company. A company related to a director of FLYHT provided financial consulting services from Q3 2021 to Q2 2022. 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	
	2022	**2021**
Amounts included in:	**$**	**$**
Contract labour	153,271	185,970
Accounts payable	26,885	32,972

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:

	2022	**2021**
	$	**$**
Salary	1,669,448	1,453,932
Director fees	173,085	176,233
Variable compensation	57,578	98,500
Share-based payments	93,935	114,066
Short-term employee benefits	156,439	134,620
Total	**2,150,485**	**1,977,351**

Directors of the Company control 2.7% (2021: 2.9%) of the voting shares of the Company.

Subsidiaries

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

29. Contractual Arrangement

Certain of the Company's sales contracts require that, in the event the Chinese government restricts use of the Iridium satellite 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.

CORPORATE INFORMATION

Registrar and Transfer Agent

Odyssey Trust Company
1.587.885.0960
https://odysseytrust.com/

Share Listing

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

Investor Relations

investors@flyht.com
1.403.250.9956
www.flyht.com

FNK IR LLC
flyht@fnkir.com
1.646.809.2183

Satichi Consulting Inc.
dkim@flyht.com
1.416.728.5630

Directors

Nina Jonsson	Chairman, 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

Kent Jacobs	President and Interim Chief Executive Officer
Alana Forbes	Chief Financial Officer
Darrel Deane	Vice President Solutions
Scott Chambers	Vice President Sales and Marketing
Gurjot Bhullar	Vice President Operations

Auditor

KPMG LLP — Calgary, Alberta

Legal Counsel

Chris Croteau — Tingle Merrett LLP, Calgary, Alberta

Head Office

#500, 1212 - 31 Avenue NE
Calgary, Alberta T2E 7S8