2023 ANNUAL REPORT

FLYHT AEROSPACE SOLUTIONS LTD.

INSIGHT • ACTION • CONTROL

LETTER TO SHAREHOLDERS

FLYHT has been a 25-year journey of progress, and no year has better exemplified this than 2023. While at times it feels like the aviation industry moves at a glacial speed, it is also remarkable how, collectively – our company, airlines, the meteorological agencies – have advanced over the past year. I know that my dear friend Bill Tempany and former FLYHT CEO would be proud of how the entire FLYHT team has carried on the mission, and he would be thrilled that FLYHT's 5G aviation solutions are taking to the skies in 2024.

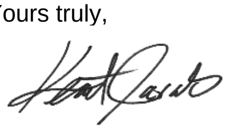
Thank you for supporting us throughout this journey. I'm excited to report that our progress is accelerating, with increasingly rapid results.

- **We are now in the process of installing the AFIRS Edge™ with our first customer in the commercial airline industry.** Less than two months after being issued a Supplemental Type Certificate ("STC") for the flange version on Airbus A320 aircraft, the Edge is now being installed on our customer's fleet, where we will operate WQAR functions through the 5G network. This is a significant milestone achievement in our multi-year effort to bring to market the industry's first 5G wireless data communication device. Additionally, we are underway with efforts to familiarize this STC into other jurisdictions, including Europe and the US.
- **AFIRS Edge+ (4MCU version) in the field.** We received the first Edge+ units from our manufacturing partner last month, and along with having the flange version Transport Canada A320 STC in hand, we have accelerated our Edge+ commercialization efforts. Whereas in January/February our enthusiastic team could talk about the Edge+, we now are in the field, presenting physical Edge+ units to prospective airlines and demonstrating installation in their aircraft with live data transmission capability. This is making all the difference, as for the first time in the history of WQARs, there is credible competition for the long-time incumbent 2G/3G/LTE WQAR market.
- **Continued interest in AFIRS 228**. The request by our long-term OEM partner to undertake engineering and design work on the technology that it licenses from us as part of its Airbus line fit satcom program is the surest indicator that this program remains strong, and that this high margin licensing revenue will continue well into the future. To date this program has resulted in shipment of more than 3,200 units over a 12-year span.
- **More budget received for U.S. weather.** We remain on track to deploy the FLYHT-WVSS-II sensor, Edge, and Certus-100 satcom solution with a North American airline by the end of this year. As expected, NOAA was also allocated FY2024 budget to purchase additional FLYHT-WVSS-II, Edge and satcom systems. We are now focused on securing and increasing funding for FY2025-2028 through the U.S. National Weather Service Aircraft Based Observation Program.
- **Exciting pipeline and innovation in Europe.** I continue to be very enthusiastic about growth and innovation at CrossConsense, our wholly owned European division. Their work and reputation have expanded the pipeline to include significant data migration projects and new development opportunities. Meanwhile, we have begun to roll out several exciting new extensions to their popular Aircraft Fleet View app, which is already in use by more than 3,000 users. The latest enhancement is to replace the need for unofficial communication channels like WhatsApp. The team already has multiple new customers lined up, who are participating in feature development.

Financially, we finished 2023 with performance in-line with our expectations. We reported over $20 million in revenue for the full year driven by record SaaS revenue of nearly $10.7 million, or a 31% increase as compared to 2022. This included an all-time quarterly high of over $2.8 million in SaaS revenue for the fourth quarter of 2023. As expected, we did not report positive EBITDA in 2023 due to the absence of the large, high margin OEM licensing order that did not repeat this year, but also because we are reinvesting the positive cashflow from our self-sustaining businesses, built on previous generations of hardware with long useful lives, to fund the R&D and commercialization of our emerging businesses. From a balance sheet perspective, we enter 2024 with a higher cash plus GIC balance on December 31, 2023 as compared to our ending cash balance at Q3 2023, and we are poised to capitalize on our 2023 investments in the year ahead.

We're now headed into springtime with multiple opportunities for growth across our 5G aviation solutions and weather businesses, including opportunities to provide services in the emerging field of contrail detection and avoidance. I look forward to updating you on our continued progress throughout the year, and as always, I would like to thank all our loyal shareholders for their continued support.

Yours truly,



Kent Jacobs
President and Interim CEO

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Management Discussion & Analysis

This management discussion and analysis (“MD&A”) is as of April 24, 2024 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, 2023 and 2022 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, 2023 consolidated financial statements and the notes thereto in accordance with IFRS Accounting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”). The Company’s material 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 IFRS or Generally Accepted Accounting Principles (“GAAP”). It also occasionally uses certain non-GAAP financial measures, such as working capital, non-current financial liabilities and earnings before interest, income tax, depreciation and amortization (“EBITDA”). FLYHT defines working capital as current assets less current liabilities. Non-current financial liabilities include the non-current portion of loans and borrowings and lease 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. Non-current financial liabilities can be used to assess the solvency and leverage of a company. 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, research and development (“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 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, 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, government activities, volatility within 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, 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 actions, 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, which comprise FLYHT's Automated Flight Information Reporting System ("AFIRS™"). Solutions include an aircraft satcom/interface device that enables cockpit voice communications, transmission of aircraft data both while inflight via satellite and post-flight via 5G, real-time aircraft state and fleet status analysis, and preventative maintenance solutions. FLYHT's hardware products can also be interfaced with FLYHT's proprietary relative humidity sensors to deliver airborne weather and humidity data in real-time.

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

1. Actionable Intelligence Solutions

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 consolidation of this diverse collection of information provides the data for artificial intelligence and machine learning systems to run against.

FLYHT continues to add to its suite of Actionable Intelligence solutions. The service offering provides FLYHT with a recurring, Software as a Service ("SaaS") 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 Wireless Quick Access Recorder ("WQAR") post-flight 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 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. WQAR data forms one of the foundations for the Actionable Intelligence solutions that FLYHT provides.

Opportunities to enhance airline operational control and decrease airline costs are derived from Quick Access Recorder ("QAR") recordings and by expanding data harvesting that is now fully under airline control.

Aircraft Interface Device

AFIRS Edge provides Aircraft Interface Device ("AID") functions to supply an aircraft's own data to the flight deck for Electronic Flight Bag ("EFB", usually via iPad) applications. Information from a variety of systems connected to the AFIRS Edge can now be forwarded to the flight deck for use in applications accessed by the flight crew. Any application running on an EFB will have access to the data from the Edge, whether the application is developed by FLYHT or by a third party.

These AFIRS Edge functions are easily and remotely configurable. As airlines update or add new applications to run on the flight deck, the need for new aircraft data will arise. Amazon Web Services ("AWS") technologies incorporated into the design of the Edge allow ground personnel to remotely update the AID functions of an Edge and in turn, provide additional aircraft data to the flight deck.

FleetWatch

Situational awareness remains a primary objective for any Operations Control Centre (“OCC”) and airline staff. FLYHT’s FleetWatch provides a fleet wide situational awareness platform in a form configurable to be 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 (“ASD”), 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 Auxiliary Power Unit (“APU”) operation, FleetWatch is a primary conveyor of Actionable Intelligence to our airline customers.

FuelSense

Fuel usage and emissions are a significant concern for all airlines. FLYHT’s FuelSense application provides valuable insight into 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.

ClearPort allows an airline to minimize the time an aircraft is on the ground. Monitoring and reporting of events that are known to occur while an aircraft prepares for the next flight will allow ground crews to have the aircraft ready on time for the next flight. Events such as passenger and cargo doors opening and closing, fuel being uploaded, passengers boarding are actively tracked and reported so dispatch crews can monitor the state of a turn and inject corrective action as needed.

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 the ability to transmit recorded aircraft data over 5G networks, provide flight deck applications with data from a variety of aircraft systems, bulk aircraft system data acquisition and recording, and AFIRS analytics through our enhanced, customized aircraft health monitoring system.

The WQAR function of the AFIRS Edge provides an industry-first move towards 5G transmission of aircraft recorded black box data. By using the most efficient method of data transfer off an aircraft post-flight, data volumes can be increased while the cost of transmission decreases. Being backwards compatible, the Edge can use 5G, 4G, or 3G networks, allowing for continuous service at airports around the world as older networks are decommissioned. 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 avionics 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 our customers and for the industry. There are two models within the AFIRS Edge product line: the AFIRS Edge, a smaller flange mounted device that requires a larger installation effort, and the Edge+, which can take advantage of 2G/3G/LTE existing installations on aircraft and allows for a simple 5 minute replacement., The two different Edge models provide airlines flexibility in how they wish to equip their aircraft and allows them to obtain common functions across diverse fleets.

AFIRS

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 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 communicating weather observations that include relative humidity data captured by aircraft sensors. 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.

Various certifications granted by Transport Canada to FLYHT for the AFIRS 228S allow for provision of safety services voice and data, and ensure customers are able to benefit from a more efficient route structure, reduced flight times, reduced fuel burns, and enhanced communications between Air Traffic Control and the aircraft.

FLYHT's systems and solutions provide enhanced global flight tracking capabilities that meet and exceed International Civil Aviation Organization's ("ICAO") 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 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.

By adding relative humidity to the standard weather data collected by various aircraft sensors during the ascent and descent phases, FLYHT significantly increases the value of aircraft 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.

FLYHT-WVSS-II enhanced ABOs are provided to government and private weather modeling agencies around the world using industry standardized and accepted formats for data transmission of weather data, thereby ensuring maximum benefit of this data to meteorological agencies around the world.

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 this information with Global Positioning System ("GPS") data and transmits the payload 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 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 these systems.

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 AFIRS 228 voice and data communication solutions provide alternatives to legacy systems that are unreliable, heavy, and expensive. Aircraft flying routes where ground-based VHF communication is not available are supported with communication between the flight deck and either company operation or to Air Traffic Control. The AFIRS Edge includes 5G/4G/3G cellular capabilities, a modular Iridium Certus satcom capability, and the flexibility to integrate with existing onboard broadband solutions.

4. *MRO Services*

CrossConsense supports the aviation industry with its expertise in the application and utilization of SWISS AviationSoftware's comprehensive Aircraft Maintenance and Engineering Operating System (“AMOS”) software solution. With a profound understanding of airline maintenance operations and supporting Maintenance, Repair, and Overhaul (“MRO”) products, the company offers a range of solutions in this market including maintenance, engineering, and logistics solutions, as well as data migration, business intelligence, customization, and consulting services. Core offerings include:

AMOS Support
Offering a single point of contact for both 1st and 2nd level support, CrossConsense ensures seamless troubleshooting and assistance for clients. CrossConsense specializes in meticulously planned and executed data migration projects, ensuring smooth transitions for airline customers. The company also excels in reporting and business intelligence analytics, providing crucial insights to optimize operations.

AMOS Hosting & Operation
Hosting and operation services offer a comprehensive solution for aviation businesses seeking a reliable, secure, and efficient platform to manage their software applications.

Aircraft Fleet View
The Aircraft Fleet View application is a tool that provides real-time insights into an airline's fleet status. Displaying crucial information with precision and clarity, Aircraft Fleet View offers updates on Aircraft on Ground (“AOG”) situations, delays, and other vital data without overwhelming the user.

ACSIS
Recognizing the collective, untapped value of data stored in maintenance databases like AMOS, CrossConsense developed their Aircraft Condition and Status Information System (“ACSIS”) product. This robust software empowers airlines, operators, MRO facilities, and OEMs to identify trends and report on conditions that optimizes aircraft utilization and enhances safety, thereby contributing to improved overall operational efficiency.

AviationDW
Aviation Data Warehouse (“AviationDW”) is a managed data warehouse solution tailored for seamless integration with backend systems such as AMOS. By simplifying Key Performance Indicator (“KPI”) creation through comprehensive MRO system data analysis, AviationDW offers a strategic advantage in decision-making and performance optimization.

SYSTEM APPROVALS

FLYHT is a Transport Canada Civil Aviation (“TCCA”) Approved Manufacturer, a TCCA Approved Maintenance Organization (“AMO”) and a European Aviation Safety Council (“EASA”) and a Civil Aviation Administration of China (“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 and is certified with the registrar Intertek. The Company also holds STCs to make appropriate modifications, such as installing FLYHT’s AFIRS, FlightLink and TAMDAR technologies to an aircraft’s approved design. An STC is required when the original type design of the aircraft is altered or modified. In order to install FLYHT’s hardware solutions on an aircraft, the type design is altered, and thus the STC certification process must be followed in whichever jurisdiction the aircraft operates. In addition to STCs, FLYHT also holds a Technical Standard Order (“TSO”) certification for its AFIRS 228S product. A TSO is a minimum performance standard for a specific material, part, or appliance. In this case, AFIRS conforms to TSO-C159b, making it a conforming Next Generation Satellite System (“NGSS”) using Iridium satcom.

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 revise its 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 Federal Aviation Administration (“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, CAA, 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 provisional approval (this process can vary depending on the jurisdiction).

Once the provisional approval is received, 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 approval 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, confers with the original issuing regulator if required and issues an STC for that country based on their validation of the original 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		Aircraft Type
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			Comac ARJ21 *China Express Airlines Co. Ltd.
	A		A				P		A	Embraer ERJ 190-100
		A								Embraer Legacy 600 and ERJ–135, -145
A										Fokker 100
A	A	A	A	A	A					Hawker Beechcraft 750, 800XP, 850XP, 900XP
A		A			A					McDonnell Douglas DC-10 (KC-10 military)
			A							McDonnell Douglas MD-82
	A		A							McDonnell Douglas MD-83
A										Viking Air DHC-7 (LSTC)

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: AFIRS Edge

TCCA Canada	UK CAA	Aircraft Type
A		Airbus A319, A320, A321, NEO
P		Boeing B737-600, -700, -800
P		Boeing B737-MAX 8
	I	Embraer ERJ-145

STC Chart: FLYHT-WVSS-II

TCCA Canada	UK CAA	Aircraft Type
I		Boeing B737-600, -700, -800
	I	Embraer ERJ-145

STC Chart: TAMDAR

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

**Chart Legend: 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. A few key points are as follows[1].

- Industry-wide revenue passenger-kilometers ("RPKs") increased 25.3% year-on-year (YoY) in December. In 2023, industry RPKs reached 94.1% of 2019 levels.
- Available seat-kilometers ("ASKs") grew by 24.1% YoY and recovered to 94.4% of pre-pandemic capacity over the whole year. Global passenger load factor stood at 82.3%, slightly under the 2019 threshold.
- Domestic markets have seen diverse developments as the year closed, total domestic traffic in 2023 nevertheless surpassed 2019 numbers by 3.9%.
- International traffic achieved great recovery this year while attaining 88.6% in 2023

The Aviation Industry in 2023

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.

Strong demand for air travel continued to propel the recovery of passenger markets in 2023. The total industry achieved a remarkable 36.9% year-on-year ("YoY") growth, as traffic, measured in RPKs, reached 94.1% of 2019 levels, a significant increase from 2022 when it stood at 68.7%. The supply of seats slightly exceeded the demand for travel compared to 2019 (pre-pandemic), resulting in an industry-wide load factor of 82.3%, which was only 0.3 ppt lower than the load factor in 2019.

Domestic traffic set new highs in 2023, most of the monitored markets surpassed the pre-pandemic levels by mid-2023. The definitive reopening of China in January 2023 shaped the industry's recovery profile as total domestic RPKs remained largely above pre-pandemic levels for most of the year reflecting the buoyant activity this major market has observed. In 2023, total domestic RPKs grew 30.4% YoY and stood 3.9% over 2019 levels.

On the other hand, international traffic remained lower than its levels of 2019 while maintaining a stable yet robust growth pace. Industry-wide international RPKs increased 41.6% YoY and totaled 88.6% of pre-COVID levels. Although airlines across the globe saw various outcomes, all regions contributed to those developments by achieving resilient growth in international passenger traffic. Asia Pacific airlines more than doubled their RPKs, growing 126.1% compared to 2022, overcoming a large part of the setback caused by past strict travel restrictions, however, they remained 27.3% under pre-pandemic levels. On the other hand, North American carriers have surpassed their 2019 record by 1.4%, leading the regions in terms of international recovery.[1]

Global air cargo demand reached 22.8 billion CTKs in December, the highest traffic in two years, representing a 10.8% increase YoY – the most significant annual growth since October 2021. While this performance is partly due to a base effect (the decline in CTKs for most of 2022), it also reflects strong, continuous YoY demand growth over the past four months and robust month-on-month growth since April. This narrows the gap between 2023 and the previous year to 1.9% yet remains 3.6% below the total air cargo traffic achieved in 2019.

Seasonally Adjusted ("SA") CTKs maintained their upward trajectory, increasing by 10.7% YoY this month. The continued annual growth in SA CTKs, evident since August, markedly strong reverting from the declining trend observed throughout 2022. This underscores the progressive recovery of the global air cargo market, concluding 2023 on a robust note with strong momentum moving forward. [2]

Boeing and Airbus reported strong orders and deliveries figures in December 2023 and finished the year on a high note. Airbus just set three new industry records last month: Backlog record (8,598 jets), highest gross orders in a year (2,319 jets), and highest net new orders in a year (2,094 jets). Also, Boeing set a new company all-time backlog record (6,216 jets). These records are signs of things to come. In a few years, Airbus will be the first commercial jet maker to report 1,000 deliveries in a single year, and, at the same time, the rivalry between the two major commercial jet makers will intensify, as Boeing will do its utmost to close the gap to its European rival.

In December, Boeing delivered 67 commercial jets compared to Airbus with 112 units. This compares to 69 deliveries for Boeing and 98 for Airbus in December of last year. In 2023, in total, Boeing and Airbus delivered 528 and 735 aircraft compared to 480 and 663, respectively, in 2022. In 2023, Airbus won the deliveries crown for the fifth consecutive year.[3]

[1] https://www.iata.org/en/iata-repository/publications/economic-reports/air-passenger-market-analysis-december-2023/
[2] https://www.iata.org/en/iata-repository/publications/economic-reports/air-cargo-market-analysis-december-2023/
[3] Airbus and Boeing Report December and Full Year 2023 Commercial Aircraft Orders and Deliveries – Flight Plan (forecastinternational.com)

FLYHT's Market

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 these 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.

Detecting atmospheric conditions that create contrails from aircraft has become increasingly critical, as scientists confirm that contrails have a net warming effect that could be as significant as aircraft carbon dioxide emissions. FLYHT has been working with our Actionable Intelligence and weather offerings to develop services to support the broad array of airlines, scientists & regulators that are looking for ways to further reduce the climate impacts of aviation through contrail detection and avoidance.

Foreign Currency

The Canadian dollar strengthened relative to the U.S. dollar but weakened relative to the euro throughout Q4 2023 and year to date ("YTD"), and overall the Company experienced a positive impact to net income compared to Q4 2022. 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 Q4 2023 and YTD. 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 considers Environmental, Social and Governance ("ESG") factors in decisions made throughout all aspects of its operations. ESG factors are important to business operations and can impact company value and investor decision making. The Company has set reporting metrics and is continually updating a roadmap and implementation timelines. The focus of this program throughout the fourth quarter of 2023 was on understanding reporting requirements and developing systems to address those requirements. This includes not only assessing potential risks, but also the opportunities for the Company to provide additional services to other companies working to achieve their ESG and broader sustainability goals. FLYHT has selected the financial reports as the communication method for our ESG programs to ensure visibility for investors into FLYHT's ESG commitments and opportunities, with the Forced Labour reporting component more fully communicated via the annual report that will accompany our annual financial statements.

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 Carbon Offsetting and Reduction Scheme for International Aviation ("CORSIA") and European Union Emissions Trading System ("EU ETS"). The Company's products support the industry's commitment to attain and measure net-zero 2050 in the key areas of 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 2022, FLYHT showcased its partnership with Swoop Airlines to reduce emissions by eliminating non-essential 3rd engine / 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 carbon dioxide ("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. The very nature of FLYHT's business also supports long-term sustainability. Historically, many of the Company's sales have come from the retrofit market, in which the Company, by making upgrades to improve the functionality and safety of existing machinery, facilitates the re-use and recycling of aircraft and equipment that might otherwise be scrapped as obsolete.

With the partnership between the UK's Met Office, Loganair and FLYHT agreed to in 2023, FLYHT will be providing the FLYHT-WVSS-II humidity sensors to improve the accuracy of weather forecasts and specifically the prediction of severe weather in the UK, with additional expected benefits for the aviation industry such as more efficient route planning and supporting aims to reduce CO2 emissions. Furthermore, FLYHT was awarded a contract by the National Oceanic and Atmospheric Administration ("NOAA") to provide its water vapour sensor technology to help the U.S. National Weather Service ("NWS") improve weather forecasting and warnings. The agreement is an expansion of FLYHT's long-standing relationship with NOAA and a recognition of the important role that ABOs play in improving weather forecasting and warning models.

Measurable environmental impacts internal to FLYHT over the past 5 years include a significant reduction in our operation's reliance on paper and the diversion of technology equipment 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 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 United Nation'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 has established a policy to address requirements as outlined in Canada's *Fighting Against Forced Labour and Child Labour in Supply Chains Act.* By May 31 of each year we will share the steps we have taken to prevent and reduce the risk that forced labour or child labour is used at any step of the production of goods in Canada or imported into Canada.

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, opportunities and support to pursue training and professional development, and comprehensive health benefits. Policies that confirm FLYHT's commitment in these areas include a career development and training policy, and a flexible workplace policy. In addition, FLYHT conducts a periodic staff survey that gives all employees the opportunity to provide anonymous feedback on company culture, workplace satisfaction, workload and recognition, among others. FLYHT also tracks employee health and safety statistics to monitor that 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 affects 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 continues to be critical in forming the Company's ESG direction and identifying key areas to focus on in each area of the business.

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 several years and can be measured from entry level to the senior management 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, employees and consultants as it relates to communications with the public. Multiple Company policies form a code of conduct for this group. 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, ensure that the Board of Directors operates independently of management and in the best interests of the Company.

Next steps

A key activity within FLYHT's ESG strategy has been preparation for climate-related disclosures. Although as a TSX Venture issuer FLYHT's implementation effort at this point will be largely voluntary, the Company believes it is important to assess material implications for the business regarding 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 the Task Force on Climate Related Disclosures ("TCFD"). FLYHT has also seen an increase in reporting requirements and evaluations from customers and suppliers. Climate change and ESG measures are under the direct purview of the audit committee, which is working to establish policies and processes for this sub-committee. FLYHT has completed a review of climate change risks and opportunities, and an assessment of finance and investment policy alignment with environmental goals. Next steps involve establishing consistent review of and reporting on our material climate risks, while monitoring further mandates and requirements for disclosure.

In June 2023, the International Sustainability Standards Board ("ISSB") issued IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2 Climate-related Disclosures, which are effective for annual reporting periods beginning on or after January 1, 2024, subject to local jurisdictional adoption. These standards provide for transition relief in IFRS S1, allowing reporting entities to report on only climate-related risks and opportunities in the first year of reporting under the sustainability standards.

The Canadian Securities Administrators ("CSA") are responsible for determining the reporting requirements for public companies in Canada and are responsible for decisions related to the adoption of the sustainability disclosure standard, including the effective annual reporting dates. The CSA issued proposed National Instrument NI-51-107 - Disclosure of Climate-related Matters in October 2021. The CSA intends to consider the ISSB standards in addition to developments in United States reporting requirements in its decision relating to development of climate-related disclosure requirements for Canadian reporting issuers. The CSA will involve the Canadian Sustainability Standards Board ("CSSB") for a combined review of the suitability of adopting the ISSB standards in Canada. There is no requirement for public companies in Canada to adopt the ISSB standards until the CSA and CSSB have issued a decision on reporting requirements in Canada. While FLYHT is reviewing the ISSB standards as well as the recently released CSSB proposals, we have not yet determined the impact on future financial statements nor has the Company quantified the costs to comply with such standards.

Security Management

FLYHT participated in ICAO's annual conference on aviation and cyber security, which was attended by senior government officials, regulators, and industry leaders from around the world. This included a presentation by FLYHT that advocated for integrated risk management in the airline industry, whereby the common key elements of risk management systems applicable to safety, aviation security, and cybersecurity are integrated by airlines, airports, equipment manufacturers, and suppliers to ensure the highest degree of resilience of both individual organizations and the industry as a whole.

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.

2023 Key Achievements and Activities

- In March 2023, FLYHT received STC Certification for the AFIRS 228 on Boeing 737 MAX-8 aircraft.
- FLYHT was named to the TSX Venture Exchange 'Venture 50'
- Testimony was provided by FLYHT to U.S. congress regarding reauthorization of the Weather Act
- Commercial agreements were signed with Sichuan Airlines and Bahamasair
- FLYHT welcomed two new directors to its board, Peter Large and Nancy Young
- Flair Airlines signed an agreement to purchase AFIRS Edge hardware and Actionable Intelligence services
- FLYHT received a USD $1.4 million purchase order from a long-time Original Equipment Manufacturer ("OEM") partner
- A five-year renewal was signed with a long-term customer for AFIRS services on its fleet of 14 Boeing aircraft, together with a trial for CrossConsense's ACSIS product
- FLYHT partnered with the UK Met Office and Loganair to improve forecasts of high impact weather, providing weather observations via the FLYHT-WVSS-II and AFIRS Edge products
- A purchase order was received with NOAA for FLYHT to provide the FLYHT-WVSS-II product together with the AFIRS Edge
- A European flag carrier contracted with CrossConsense for a two-year aircraft data migration project
- Canada Jetlines signed an agreement with FLYHT for both the AFIRS Edge and AFIRS 228 hardware on their fleet, affirmed their support as FLYHT's A320 STC partner, and added the full suite of FLYHT's software services
- FLYHT obtained STC certification from the FAA for a specialized version of the AFIRS 228 on A319, A320 and A321 aircraft
- Air North ordered both hardware and software services, including AFIRS Edge & AFIRS 228, on its fleet of B737NG aircraft
- FLYHT signed a multi-year contract renewal with Jordan Aviation to provide its fleet of Boeing 767, 737's and Airbus A320's with FLYHT's software solutions

Results of Operations

Selected Results

	Q4 2023 $	Q3 2023 $	Q2 2023 $	Q1 2023 $
Assets	13,182,648	13,469,943	14,293,601	14,988,847
Non-current financial liabilities*	5,197,714	5,439,092	5,677,518	5,912,886
Revenue	4,244,787	5,099,019	6,043,543	4,757,230
Cost of sales	1,736,607	2,108,313	2,442,082	2,030,311
Gross profit	2,508,180	2,990,706	3,601,461	2,726,919
Gross profit %	59.1%	58.7%	59.6%	57.3%
Distribution expenses	1,532,646	1,543,074	1,587,397	1,759,353
Administration expenses	1,028,202	897,031	1,060,111	1,062,840
Research, development and certification engineering expenses	1,339,924	1,146,019	950,995	1,411,873
Results from operating activities	(1,392,592)	(595,418)	2,958	(1,507,147)
Depreciation and amortization	165,809	164,553	165,087	163,233
EBITDA*	(1,226,783)	(430,865)	168,045	(1,343,914)
Loss	(1,494,795)	(728,655)	(168,807)	(1,657,114)
Loss per share (basic)	(0.04)	(0.02)	(0.01)	(0.04)
Loss per share (diluted)	(0.04)	(0.02)	(0.01)	(0.04)
	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)

**See Non-GAAP Financial Measures*

Weighted Average Shares Outstanding

	2023 $	2022 $	2021 $
Basic	38,904,152	38,151,602	31,415,175
Diluted	39,149,318	38,383,777	31,691,451

Financial Position

Liquidity and Capital Resource

The Company's cash and cash equivalents at December 31, 2023 decreased to $1,542,203 from $1,997,650 at December 31, 2022. The Company has an operating demand loan available through a Canadian chartered bank for up to a maximum of $2.0 million. The operating demand loan bears interest at the Canadian chartered bank prime plus 1.5%. Security includes accounts receivable, cash collateral of $500,000 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, 2023.

The Company funded Q4 2023 operations primarily through cash proceeds received from sales.

	December 31, 2023 $	December 31, 2022 $	Variance $
Cash and cash equivalents	1,542,203	1,997,650	(455,447)
Other financial assets	500,000	650,000	(150,000)
Trade and other receivables	2,896,200	5,127,338	(2,231,138)
Contract assets	282,136	121,046	161,090
Deposits and prepaid expenses	263,798	349,132	(85,334)
Inventory	1,180,757	1,385,048	(204,291)
Tax receivable	24,643	-	24,643
Trade payables and accrued liabilities	(3,097,494)	(2,736,269)	(361,225)
Customer deposits	(1,022,829)	(376,668)	(646,161)
Contract liabilities	(1,052,969)	(922,952)	(130,017)
Loans and borrowings	(1,234,335)	(828,345)	(405,990)
Lease liability	(466,670)	(436,581)	(30,089)
Current tax liabilities	-	(10,541)	10,541
Working capital*	**(184,560)**	**4,318,858**	**(4,503,418)**

**See Non-GAAP Financial Measures*

As at April 24, 2024 FLYHT's issued and outstanding share capital was 38,997,650.

The consistent achievement of positive earnings is necessary before the Company can consistently improve liquidity. The Company has continued to expand its cash flow potential through its continued marketing drive to clients around the world, contracts for delivery of hardware units and related services, and development of hardware and software solutions designed to access opportunities presented by changing industry technology, airline industry need for real-time data analysis, for solutions supportive of airlines' NetZero commitments, and growing interest from meteorological agencies in airborne weather observations.

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 annual losses from operating activities in both 2023 and 2022, with operating activities contributing positive cash in 2023 compared to negative cash in 2022 due to lower non cash working capital year over year, with the change in accounts receivable between periods as a large contributor. At December 31, 2023, the Company had negative working capital of $185 thousand compared to positive $4.3 million as of December 31, 2022, a decrease of $4.5 million. The Company ended Q4 2023 with balances of $1.5 million in cash and cash equivalents, $0.5 million in Guaranteed Investment Certificates ("GIC") 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 expand its earnings and cash flow potential through its focused marketing efforts, particularly the presentation of Actionable Intelligence tools to customers and prospects and the pursuit of opportunities for the deployment of FLYHT's weather sensors, 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 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 affect the Company's ability to achieve positive earnings and cash flows. The negative impact on 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. There has largely been recovery in our customer base, although 100% recovery has not been attained. 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. These 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 U.S. 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, 2023.

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 may disable data 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 of April 24, 2024 $2,311,083 of the balances outstanding at December 31, 2023 had been collected.

Contractual Obligations

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

December 31, 2023	**< 1 year** **$**	**1-2 years** **$**	**2-5 years** **$**	**> 5 years** **$**	**Total** **$**
Accounts payable	2,582,657	-	-	-	2,582,657
Compensation and statutory deductions	382,140	-	-	-	382,140
Accrued liabilities	132,697	-	-	-	132,697
Lease payments	466,670	441,150	1,083,668	755,541	2,747,029
Loans and borrowings	733,104	1,064,945	3,438,687	553,261	5,789,997
Total	**4,297,268**	**1,506,095**	**4,522,355**	**1,308,802**	**11,634,520**

Government Loans

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

Under the Strategic Aerospace and Defence Initiative ("SADI"), at December 31, 2023 the Company has an outstanding repayable balance of $822,219. The amount is repayable over 15 years on a stepped basis that commenced on 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 $208,715 was made in 2023 (2022: $181,493). The carrying value of the amount owing under this program at December 31, 2023 is $1,329,622 (December 31, 2022: $1,331,720).

In November 2016, the Company signed a contribution agreement with Western Economic Diversification Canada for a Western Innovation Initiative ("WINN") loan, to support plans for technology development in the air and ground components of the Company's products. Under the terms of the agreement, a repayable unsecured WINN contribution of $2,350,000 was received. The amount is repayable over five years commencing January 1, 2020. Contract amendments in 2020 adjusted the payment dates, with the final payment date pushed back to September 2025; while an amendment in March 2024 reduced payments required from April 2024 – March 2025, with the resulting difference added to the amount of each payment due from April 2025 – September 2025. Repayments in 2023 totaled $468,000 (2022: $468,000). The carrying value of the amount owing under this program at December 31, 2023 is $757,953 (December 31, 2022: $1,132,345).

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 of $2,761,000 was received, repayable over five years commencing October 1, 2021. Contract amendments in 2021 adjusted the repayment start date to October 1, 2023 and a March 2024 amendment reduced payments required from April 2024 – March 2025, with the difference added to the amount of each payment due from April 2025 – October 1, 2028. Repayments in 2023 totaled $138,051 (2022: $nil). The carrying value of the amount owing under this program at December 31, 2023 is $2,221,217 (December 31, 2022: $2,202,931).

In May 2021, the Company received funding of $250,000 through the Business Development Bank of Canada's ("BDC") Highly Affected Sectors Credit Availability Program ("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 were comprised of interest only, with the principal and accrued interest payable over the remaining 9 years. Repayments in 2023 totaled $36,621 (2022: $26,042). The carrying value of the amount owing under this program at December 31, 2023 is $187,742 (December 31, 2022: $210,777).

A summary of the carrying value of the government loans as at December 31, 2023 and 2022 and changes during these three and twelve months is presented below.

	For the three months ended December 31			For the year ended December 31		
	2023 $	2022 $	Variance $	2023 $	2022 $	Variance $
Opening Balance	4,642,830	4,741,988	(99,158)	4,877,773	4,456,286	421,487
Received	-	278,209	(278,209)	-	947,368	(947,368)
Grant Portion	-	(142,676)	142,676	-	(324,926)	324,926
Interest accretion	117,800	126,576	(8,776)	470,148	474,580	(4,432)
Repayment	(264,096)	(126,324)	(137,772)	(851,387)	(675,535)	(175,852)
Carrying amount at December 31	**4,496,534**	**4,877,773**	**(381,239)**	**4,496,534**	**4,877,773**	**(381,239)**
Less current portion	1,234,335	828,345	405,990	1,234,335	828,345	405,990
Non-current portion	3,262,199	4,049,428	(787,229)	3,262,199	4,049,428	(787,229)

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, 2023 and 2022. Payments were received for 9 installation kits in the fourth quarter of 2023 compared to 8 received in the fourth quarter of 2022, with variations in aircraft configuration and installation kit requirements resulting in pricing differences per kit. For the year ended December 31, 2023 payment was received for 77 kits, compared to the 64 kits in the same timeframe of 2022.

	For the three months ended December 31			For the year ended December 31		
	2023 $	2022 $	Variance	2023 $	2022 $	Variance
Opening balance	869,836	713,369	156,467	376,668	609,555	(232,887)
Payments received	633,835	557,270	76,565	2,665,320	2,376,293	289,027
Recognized as revenue	(480,842)	(893,971)	413,129	(2,019,159)	(2,609,180)	590,021
Balance, December 31	**1,022,829**	**376,668**	**646,161**	**1,022,829**	**376,668**	**646,161**

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, 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

	For the three months ended December 31			For the year ended December 31		
	2023 $	2022 $	Variance	2023 $	2022 $	Variance
SaaS	2,801,661	2,253,618	548,043	10,693,098	8,157,886	2,535,212
Hardware	327,941	1,217,860	(889,919)	4,273,464	4,720,204	(446,740)
Licensing	25,649	3,030,368	(3,004,719)	1,962,223	9,101,130	(7,138,907)
Technical Services	1,089,536	739,912	349,624	3,215,794	1,899,940	1,315,854
Total	**4,244,787**	**7,241,758**	**(2,996,971)**	**20,144,579**	**23,879,160**	**(3,734,581)**

For the year ended December 31, 2023, total revenue decreased 15.6% from $23,879,160 in 2022 to $20,144,579 in 2023.

SaaS revenue increased 24.3% in Q4 2023 over Q4 2022, and 31.1% year over year. The post-pandemic recovery of the Company's customer base and an increase in weather data being provided to meteorological organizations were the main contributors to the increases, with the addition of CrossConsense revenues also a factor in increases year to date ("YTD").

Hardware revenue in Q4 2023 decreased 73.1% as compared to Q4 2022, with a total of 4 installation kits shipped in Q4 2023 compared to 16 kits shipped in Q4 2022. YTD decreases of 9.5% resulted from a total of 69 installation kits shipped in 2023 matching the 69 installation kits shipped in 2022; with variations in aircraft configuration and installation kit requirements resulting in pricing differences per kit.

Licensing revenue decreased 99.2% from Q4 2022 and decreased 78.4% YTD due to differences in the number of modems and associated license fees ordered for delivery in comparative periods. Licensing revenues in 2022 were much higher than average in the history of that program.

Technical Services revenue increased 47.3% for Q4 2023 compared to Q4 2022 as a result of data migration project work completed as well as an increase in customer requests for certification services. The increase in CrossConsense data migration revenues in 2023 were a significant factor in the YTD increase of 69.3%.

Revenue sources for the last eight quarters were:

	Q4 2023	Q3 2023	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022
SaaS	2,801,661	2,787,664	2,690,573	2,413,200	2,253,618	2,073,284	2,155,912	1,675,072
Hardware	327,941	1,001,817	1,172,261	1,771,445	1,217,860	480,064	912,682	2,109,598
Licensing	25,649	494,573	1,433,264	8,737	3,030,368	3,536,153	1,399,903	1,134,706
Technical Services	1,089,536	814,965	747,445	563,848	739,912	635,872	412,875	111,281
Total	**4,244,787**	**5,099,019**	**6,043,543**	**4,757,230**	**7,241,758**	**6,725,373**	**4,881,372**	**5,030,657**

Geographical distribution of revenue sources was:

	Q4 2023		Q4 2022		YTD 2023		YTD 2022	
	$	%	$	%	$	%	$	%
United States & Mexico	984,533	23.2	3,782,947	52.2	5,795,172	28.8	12,224,340	51.2
Asia	430,897	10.2	239,138	3.3	1,671,890	8.3	975,081	4.1
China	144,615	3.4	593,659	8.2	1,109,486	5.5	1,963,049	8.2
Middle East	83,006	2.0	134,681	1.9	587,969	2.9	607,445	2.5
Canada	257,939	6.0	638,758	8.8	3,121,656	15.5	2,900,423	12.1
Australia	197,070	4.6	200,242	2.8	723,939	3.6	472,278	2.0
Africa	137,687	3.2	126,699	1.7	546,791	2.7	495,874	2.1
Europe	1,988,900	46.9	1,510,949	20.9	6,511,146	32.3	4,069,501	17.1
South/Central America	20,140	0.5	14,685	0.2	76,529	0.4	171,169	0.7
Total	**4,244,787**	**100.0**	**7,241,758**	**100.0**	**20,144,579**	**100.0**	**23,879,160**	**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, installation support, project management and software implementation, 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 2023 was 40.9% compared to 32.9% in Q4 2022. Gross profit decreased due to differences in the mix of revenue sources, mainly due to differences in the licensing revenue category. Gross profit will fluctuate quarter over quarter depending on the mix of revenue categories.

Gross profit and cost of sales for the last eight quarters was:

	Q4 2023	Q3 2023	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022
Gross Profit %	59.1	58.7	59.6	57.3	67.1	72.4	55.8	54.7
Cost of Sales %	40.9	41.3	40.4	42.7	32.9	27.6	44.2	45.3

Distribution Expenses (Recovery)

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

Major Category	**Q4 2023 $**	**Q4 2022 $**	**Variance $**	**YTD 2023 $**	**YTD 2022 $**	**Variance $**
Salaries and benefits	1,017,946	1,046,312	(28,366)	4,166,651	4,136,208	30,443
Share based compensation	14,046	27,640	(13,594)	52,690	57,674	(4,984)
Contract labour	241,955	270,044	(28,089)	962,400	880,600	81,800
Office	67,815	70,483	(2,668)	274,554	219,720	54,834
Travel	72,373	109,759	(37,386)	324,468	266,070	58,398
Equipment and maintenance	75,747	57,054	18,693	254,624	177,730	76,894
Depreciation and amortization	54,334	43,774	10,560	215,444	204,962	10,482
Marketing	37,976	81,378	(43,402)	135,845	158,281	(22,436)
Government grants	-	-	-	-	(222,108)	222,108
Bad debt reserve decrease (increase)	(49,546)	(45,188)	(4,358)	35,794	32,530	3,264
Total	**1,532,646**	**1,661,256**	**(128,610)**	**6,422,470**	**5,911,667**	**510,803**

Distribution expenses decreased 7.7% from Q4 2022 to Q4 2023, and increased 8.6% YTD 2023 compared to YTD 2022. The COVID-19 related government grants received in 2022 that were not available in 2023 as well as the acquisition of the CrossConsense business in late Q1 2022 were both factors in YTD increases.

Salaries and benefits showed an increase for the 2023 year due to staff additions from the acquisition of CrossConsense in March 2022; with a decrease in Q4 2023 compared to Q4 2022 as a result of changes in staffing levels in this area. **Contract labour** decreases Q4 2023 from Q4 2022 show a restructuring in our contractors supporting our sales, while increases YTD occurred with the addition of resources dedicated to business development for our newest products.

Office expenses show a YTD increase mainly due to the Q1 2022 additon of the CrossConsense office location in Frankfurt and associated expenses.

Travel decreased in Q4 2023 compared to Q4 2022 with a difference in number of personnel travelling; but increased YTD, reflecting an overall increase in face to face meetings and conferences supporting marketing and sales activities.

Equipment and maintenance Q4 and YTD increases reflect the addition of costs related to CrossConsense's third-party server hosting facility in late Q1 2022 as well as increases in costs for web hosting activities.

Government grants related to COVID-19 did not occur in 2023, with the conclusion of these grants in 2022.

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 2023 $	Q4 2022 $	Variance $	YTD 2023 $	YTD 2022 $	Variance $
Salaries and benefits	388,695	250,159	138,536	1,666,945	1,712,234	(45,289)
Share based compensation	14,690	43,935	(29,245)	68,076	101,355	(33,279)
Contract labour	146,509	238,522	(92,013)	380,110	1,179,042	(798,932)
Office	158,917	172,733	(13,816)	683,577	672,276	11,301
Legal fees	16,779	17,990	(1,211)	57,761	173,751	(115,990)
Audit and accounting	123,599	142,187	(18,588)	376,993	350,840	26,153
Investor relations	20,647	22,002	(1,355)	158,965	145,091	13,874
Travel	1,606	35,425	(33,819)	34,568	153,295	(118,727)
Equipment and maintenance	75,968	96,855	(20,887)	321,660	348,842	(27,182)
Depreciation and amortization	72,874	178,107	(105,233)	291,155	273,445	17,710
Government grants	-	-	-	-	(48,258)	48,258
Other	7,918	11,273	(3,355)	8,374	20,379	(12,005)
Total	**1,028,202**	**1,209,188**	**(180,986)**	**4,048,184**	**5,082,292**	**(1,034,108)**

Administration expenses decreased by 15.0% from Q4 2022 to Q4 2023 and 20.3% YTD, mainly due to a year over year reduction in salaries and benefits and contract labour.

Salaries and benefits increased in Q4 2023 compared to Q4 2022 due to a reallocation of acquisition costs to the intangible assets in Q4 2022. Costs in this category were reduced YTD due to reductions in resources engaged in administrative activities, with the addition of CrossConsense staff in March 2022 offsetting a portion of the YTD difference.

Contract labour decreased both for Q4 as well as YTD 2023 due to reductions in contract resources engaged in administrative activities.

Legal expenses have decreased YTD as the CrossConsense acquisition costs incurred in early 2022 did not re-occur in 2023, while the expense in the fourth quarter remained consistent with the comparative quarter.

Travel decreased in Q4 2023 compared to Q4 2022, as well as YTD, with differences in travel requirements for investor relations purposes and the non-recurring nature of the travel required in 2022 in support of the CrossConsense acquisition.

Depreciation and amortization decreased for the quarter, but with an increase YTD, reflecting differences in amortization of intangible assets acquired in the Q1 2022 CrossConsense business combination.

Government grants related to COVID-19 did not occur in 2023, with the conclusion of these grants in 2022.

Research, Development and Certification Engineering Expenses (Recovery)

Consists of expenses related to the improvement of existing and development of new technology and products, and the effort involved in obtaining regulatory approval for FLYHT's product set.

Major Category	Q4 2023 $	Q4 2022 $	Variance $	YTD 2023 $	YTD 2022 $	Variance $
Salaries and benefits	880,744	1,056,219	(175,475)	3,925,436	4,359,273	(433,837)
Share based compensation	6,078	6,586	(508)	24,071	19,870	4,201
Contract labour	509,273	115,497	393,776	958,234	441,551	516,683
Office	34,734	38,209	(3,475)	137,957	138,624	(667)
Travel	16,217	12,682	3,535	41,793	54,035	(12,242)
Equipment and maintenance	34,379	56,103	(21,724)	115,926	118,477	(2,551)
Components	28,217	8,562	19,655	87,392	45,186	42,206
Depreciation and amortization	38,601	40,369	(1,768)	152,083	181,632	(29,549)
SR&ED credit	10,950	-	10,950	(331,689)	(148,637)	(183,052)
Government grants	(219,269)	(255,175)	35,906	(262,392)	(589,663)	327,271
Other	-	-	-	-	139	(139)
Total	**1,339,924**	**1,079,052**	**260,872**	**4,848,811**	**4,620,487**	**228,324**

Research and Development expenses were 24.2% higher in Q4 2023 compared to the prior year's fourth quarter, with a 4.9% increase YTD. Research and development costs vary according to specific project requirements.

Salaries and benefits expenses decreased both in Q4 2023 and YTD while being offset with increases in **Contract labour** as a result of resource requirements varying based on the specific needs of various R&D initiatives. Associated **Components** required for those R&D initiatives also increased for this reason.

The **SR&ED credit** Q4 2023 was a government recalculation resulting in a reduction in credit. YTD variance reflects an increase in expenses eligible for refundable tax credits under this Canadian governmental program.

Government grants received in 2023 consisted of Alberta Innovates government funding related to R&D programs. Grants related to COVID-19 did not occur in 2023 with the conclusion of these grants in 2022.

Net Finance Costs

Major Category	Q4 2023 $	Q4 2022 $	Variance $	YTD 2023 $	YTD 2022 $	Variance $
Interest income	(7,754)	(13,336)	5,582	(37,514)	(26,576)	(10,938)
Net foreign exchange loss (gain)	(37,911)	61,648	(99,559)	(76,050)	(13,741)	(62,309)
Bank service charges	16,072	12,009	4,063	78,177	39,217	38,960
Interest expense	26,063	25,650	413	110,539	110,426	113
Government loan accretion	117,800	126,573	(8,773)	470,148	474,580	(4,432)
Net finance costs	**114,270**	**212,544**	**(98,274)**	**545,300**	**583,906**	**(38,606)**

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 relation to the U.S. dollar and the euro in Q4 2023 gave rise to foreign exchange gains in Q4 2023 compared to Q4 2022 on foreign currency denominated sales and purchases, in combination with fluctuations in U.S. denominated assets and liabilities.

Net Income (Loss) & EBITDA

Major Category	Q4 2023 $	Q4 2022 $	Variance $	YTD 2023 $	YTD 2022 $	Variance $
Net income (loss)	(1,494,795)	718,689	(2,213,484)	(4,049,371)	(1,003,033)	(3,046,338)
Net finance costs	114,270	212,544	(98,274)	545,300	583,906	(38,606)
Tax expense	(12,067)	(23,300)	11,233	11,872	10,541	1,331
Depreciation and amortization	165,809	262,250	(96,441)	658,682	660,039	(1,357)
EBITDA	**(1,226,783)**	**1,170,183**	**(2,396,966)**	**(2,833,517)**	**251,453**	**(3,084,970)**

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 fulfil 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 were held in escrow, to 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.

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 those that could have a material effect on business or results of operations. Such risks are listed below; the areas defined are not exhaustive.

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

The transportation sector is 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 an 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 are 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 emerges, FLYHT will respond accordingly.

Employee Travel Risk
FLYHT staff have resumed 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 hardware and the Company will 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 expense as possible, while installing as early as possible within the contract term. The Company's standard agreement requires payment 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 AWS cloud in various regions. All the enterprise services exist with the possibility that their security could be compromised. FLYHT employs best practices to ensure that all 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 to 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 most 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. FLYHT has established a global sales presence, with agents responsible for every continent. While some economies of the world may be in a slump or downturn, FLYHT often finds success in growing markets. The Company also demonstrates to potential customers the impressive return on investment model, how quickly customers are able to improve operational efficiency, and ultimately how much AFIRS will save them in operating costs.

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 United States based STCs. 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 Aircraft Meteorological Data Relay ("AMDAR") weather data. FLYHT supplies collected 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 stopped. 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 has been to invest in quality control programs to ensure that sensors are properly calibrated and producing valid and valuable data, and to supplement this data whenever possible with AMDAR weather data.

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 recruitment. 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 could cause a delay in servicing the AFIRS 220. FLYHT aims to avoid the risk of not having the necessary supplies by managing existing inventories of key parts. Additionally, the Company maintains close communication with its partners and suppliers to manage key components for the AFIRS 220 units.
- Both the AFIRS 228 and AFIRS Edge units are assembled by contract manufacturers, with final manufacturing completed at FLYHT. The Company relies on partners, suppliers and special parts to complete unit builds. Certain parts could be delayed in shipping or availability, which can cause a delay in receiving newly built units. FLYHT aims to avoid the risk of not having the necessary supplies by managing inventories and storing extra key parts. Both contract manufacturers are global suppliers 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 units will be available in the future. Units are serviced in different ways; by the contract manufacturer, at FLYHT's facility or in the case of the AFIRS 228, 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, FLYHT does not know with certainty whether 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 is 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 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, FLYHT believes the likelihood of a liability under these contracts is 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 of the transactions with both related parties are considered in the normal course of business and have been measured at their exchange amount.

	For the three months ended December 31		**For the year ended December 31**	
Amounts included in:	**2023 $**	**2022 $**	**2023 $**	**2022 $**
Contract labour	37,500	30,000	107,500	153,271
Accounts payable	37,500	26,885	37,500	26,885

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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, 2023 and December 31, 2022
- the consolidated statements of comprehensive income (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 material accounting policy information

(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, 2023 and December 31, 2022, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with IFRS Accounting Standards as issued by the International Financial Accounting Standards Board.

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 $4.0 million and $1.0 million for the years ended 2023 and 2022 respectively. As at December 31, 2023, the Company has a deficit of $84.2 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, 2023. 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 goodwill impairment assessment of CrossConsense cash-generating unit

Description of the matter

We draw attention to Notes 2(f), 3(g), 3(k)(ii) and 9 to the financial statements. As at December 31, 2023, the Company has recorded goodwill of $875,827 attributed to its CrossConsense cash-generating unit ("CrossConsense CGU"). CGUs to which goodwill has been allocated are tested for impairment annually, or more frequently if there are indicators of impairment. If any such indication exists, then the asset or CGU's recoverable amount is estimated. The recoverable amount of a CGU is the greater of value in use and fair value less costs to sell. The determination of the recoverable amount of the CrossConsense CGU involves estimates including forecasted cash flows, terminal growth multiple and discount rate. The recoverable amount of the CrossConsense CGU exceeded its carrying value.

Why the matter is a key audit matter

We identified the evaluation of the goodwill impairment assessment of the CrossConsense CGU as a key audit matter. This matter represented an area of significant risk of material misstatement given the magnitude of the goodwill and the high degree of estimation uncertainty in determining the recoverable amount. Estimating the recoverable amount requires the use of professionals with specialized skills and knowledge in valuation.

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 2023 actual cash flows to those forecasted cash flows used in the prior year to assess the Company's ability to accurately forecast
- We compared the forecasted cash flows to historical results and certain customer contracts. We took into account changes in conditions and events affecting the Company to assess the adjustments or lack of adjustments made by the Company in arriving at the forecasted cash flows.

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

- Assessing the reasonableness of the Company's estimate of the recoverable amount of the CrossConsense CGU by comparing the Company's estimate to a fair value range that was independently developed using the Company's forecasted cash flows, market metrics and other external data
- Comparing the Company's derivation of market capitalization attributable to the CrossConsense CGU to the recoverable amount of the CrossConsense CGU.

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 "2023 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 2023 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 IFRS Accounting Standards as issued by the International Accounting Standards Board, 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.

- 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 24, 2024

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31, 2023	December 31, 2022
	$	$
Assets		
Current assets		
Cash and cash equivalents	1,542,203	1,997,650
Other financial assets	500,000	650,000
Trade and other receivables (note 6)	2,896,200	5,127,338
Contract assets	282,136	121,046
Deposits and prepaid expenses	263,798	349,132
Inventory (note 7)	1,180,757	1,385,048
Tax receivable	24,643	-
Total current assets	6,689,737	9,630,214
Non-current assets		
Property and equipment (note 8)	2,421,957	2,839,104
Goodwill (note 9)	875,827	867,726
Intangible assets (note 10)	1,708,870	1,886,029
Inventory (note 7)	1,508,230	1,317,081
Total non-current assets	6,514,884	6,909,940
Total assets	**13,204,621**	**16,540,154**
Liabilities		
Current liabilities		
Trade payables and accrued liabilities (note 11)	3,097,494	2,736,269
Customer deposits (note 12)	1,022,829	376,668
Contract liabilities (note 13)	1,052,969	922,952
Loans and borrowings (note 14)	1,234,335	828,345
Lease liability (note 15)	466,670	436,581
Tax liability	-	10,541
Total current liabilities	6,874,297	5,311,356
Non-current liabilities		
Loans and borrowings (note 14)	3,262,199	4,049,428
Lease liability (note 15)	1,935,515	2,273,341
Provisions (note 16)	43,149	11,087
Total non-current liabilities	5,240,863	6,333,856
Total liabilities	**12,115,160**	**11,645,212**
Equity		
Share capital (note 17)	72,607,412	72,427,102
Contributed surplus	12,525,970	12,462,645
Cumulative translation adjustment	148,084	147,829
Deficit	(84,192,005)	(80,142,634)
Total equity	1,089,461	4,894,942
Total liabilities and equity	**13,204,621**	**16,540,154**

See accompanying notes to consolidated financial statements, including the going concern note (note 2e) and subsequent event note (note 14).

On behalf of the board

Director – Doug Marlin

Director – Paul Takalo

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	For the year ended December 31	
	2023 $	2022 $
Revenue (note 19)	20,144,579	23,879,160
Cost of sales	8,317,313	8,673,300
Gross profit	11,827,266	15,205,860
Distribution expenses (note 20)	6,422,470	5,911,667
Administration expenses (note 21)	4,048,184	5,082,292
Research, development and certification engineering expenses (note 22)	4,848,811	4,620,487
Income (loss) from operating activities	(3,492,199)	(408,586)
Finance income (note 23)	(113,564)	(40,317)
Finance costs (note 23)	658,864	624,223
Net finance costs	545,300	583,906
Income (loss) before income tax	(4,037,499)	(992,492)
Income tax expense (note 24)	(11,872)	(10,541)
Income (loss) for the period	(4,049,371)	(1,003,033)
Foreign currency translation adjustment	255	199,576
Comprehensive income (loss) for the period	(4,049,116)	(803,457)
Income (loss) per share		
Basic and diluted loss per share (note 18)	(0.10)	(0.03)

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the years ended December 31, 2023 and 2022

	Share Capital $	Warrants $	Contributed Surplus $	Cumulative Translation Adjustment	Deficit $	Total Equity (Deficit) $
Balance at January 1, 2023	72,427,102	-	12,462,645	147,829	(80,142,634)	4,894,942
Income (loss) for the period	-	-	-	255	(4,049,371)	(4,049,116)
Total comprehensive income (loss)	-	-	-	255	(4, 049,371)	(4,049,116)
Contributions by and distributions to owners						
Issue of common shares	-	-	-	-	-	-
Share-based payment transactions	-	-	144,837	-	-	144,837
Share options exercised	180,310	-	(81,512)	-	-	98,798
Total contributions by and distributions to owners	180,310	-	63,325	-	-	243,635
Balance at December 31, 2023	72,607,412	-	12,525,970	148,084	(84,192,005)	1,089,461
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
Share options exercised	412,508	-	(92,519)	-	-	319,989
Warrants expired	-	(954,535)	954,535	-	-	-
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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the year ended December 31 2023 $	2022 $
Cash flows from (used in) operating activities		
Loss for the period	(4,049,371)	(1,003,033)
Depreciation, amortization and impairment of non-financial assets (note 8, 10)	658,682	660,039
Disposal of non-financial assets (note 8)	13,520	54,145
Lease liability accretion (note 15)	110,539	110,426
Grant portion of contributions from WINN (note 14)	-	(324,926)
Government loan accretion (note 14)	470,148	474,580
Equity-settled share-based payment expenses	144,837	178,899
Change in financial assets	150,000	-
Change in inventories (note 7)	13,142	830,865
Change in trade and other receivables	2,267,380	(3,402,747)
Change in contract assets	(157,175)	33,002
Change in prepayments	85,334	28,556
Change in trade and other payables	396,247	1,092,624
Change in customer deposits (note 12)	646,161	(232,887)
Change in contract liabilities (note 13)	130,017	922,952
Change in provisions	35,843	14,482
Provision used (note 16)	(12,463)	(6,839)
Unrealized foreign exchange loss (gain)	(72,832)	(14,166)
Interest paid	(119,382)	(116,424)
Interest income (note 23)	(37,514)	(26,576)
Interest received	33,598	24,144
Income tax expense (note 24)	11,872	10,541
Income tax paid	(38,374)	(10,406)
Net cash from (used in) operating activities	680,209	(702,749)
Cash flows used in investing activities		
Acquisitions of property and equipment (note 8)	(33,292)	(81,356)
Proceeds from sale of property and equipment (note 8)	100	100
Acquisition of CrossConsense	-	(1,442,000)
Net cash used in investing activities	(33,192)	(1,523,256)
Cash flows from (used in) financing activities		
Proceeds from exercise of share options	98,798	319,989
Payment of lease liabilities (note 15)	(336,619)	(285,299)
Contributions from WINN (note 14)	-	947,368
Repayment of borrowings	(842,544)	(665,697)
Net cash flows from (used in) financing activities	(1,080,365)	316,361
Net decrease in cash and cash equivalents	(433,348)	(1,909,644)
Cash and cash equivalents, beginning	1,997,650	3,870,591
Effect of exchange rate fluctuations on cash held	(22,099)	36,703
Cash and cash equivalents, ending	1,542,203	1,997,650

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2023 and 2022

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 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, AFIRS™. Solutions include an aircraft satcom/interface device that enables cockpit voice communications, transmission of aircraft data both while inflight via satellite and post-flight via 5G, real-time aircraft state and fleet status analysis, and preventative maintenance solutions. FLYHT's hardware products can also be interfaced with FLYHT's proprietary relative humidity sensors to deliver airborne weather and humidity data in real-time.

2. Basis of preparation

(a) Basis of accounting

These consolidated financial statements have been prepared in accordance with IFRS Accounting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These consolidated financial statements were approved by the Board of Directors on April 24, 2024.

(b) Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis.

Certain immaterial amounts have been adjusted in the prior period to align with current period presentation.

(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 United States subsidiary is U.S. 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 largely been recovery in FLYHT's customer base, although 100% recovery has not been attained. There is continued risk until such a time as the global aviation industry recovers fully. A possibility remains 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 Company accessed governmental support, enacted cost containment and cash conservation measures, worked closely with existing partner airlines to aid in their recovery, and focused investment on developing the AFIRS Edge and Actionable Intelligence Software as a Service ("SaaS") products. The Company continues to monitor industry conditions and implement these and other measures as the situation dictates.

In 2022 the Company recognized a total of $423 thousand in government financial relief related to COVID-19 which was applied to offset associated expenses in all three expense categories (Distribution, Administration and Research & Development). This funding did not continue into 2023. All grant funds received to date have been recognized in the Statement of Comprehensive Income.

(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 2023 and 2022 of $4.0 million and $1.0 million respectively and as at December 31, 2023 has a deficit of $84.2 million. In 2023, the Company had positive $680 thousand of cash from operations, compared to negative $702 thousand in 2022. At December 31, 2023, the Company had negative working capital of $185 thousand compared to positive $4.3 million as of December 31, 2022. The Company ended 2023 with balances of $1.5 million in cash and cash equivalents, $500 thousand in other financial assets, and an undrawn credit facility of $2.0 million.

For the Company to continue as a going concern, it will need to consistently achieve profitability and positive operating cash flows. The Company continues efforts to expand its earnings and cash flow potential; however, until achieving consistent positive earnings and cash flows, the Company will be required to continue to fund operations through revenue and its resulting cash flow, as well as managing outgoing cash flows. The Company may be required to scale back operations to maximize positive cash from existing revenue and/or raise the necessary financing in the capital markets through debt and/or equity.

There is no assurance that the Company will be successful in attaining and sustaining profitable operations and positive cash flow and/or raising additional capital to meet its liquidity 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 significant doubt on 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. The Company also assesses the value of inventory to be classified as current versus non-current, based on past experience and certain assumptions regarding future anticipated needs.

5. The fair value of Western Innovation Initiative ("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. Determination of cash-generating units ("CGUs"): the Company's assets are aggregated into the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The aggregation of assets in CGUs requires management judgment and is based on geographical locations and how management monitors operations.

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.

9. Impairment test of goodwill – Goodwill is attributable to the CrossConsense CGU. Goodwill is tested annually for impairment or when there are indicators of impairment. Judgment is required in determining whether there are internal or external indicators of impairment. When tested for impairment, either annually or when there are indicators of impairment, the determination of the recoverable amount of the CrossConsense CGU involves estimates including forecasted cash flows, terminal growth multiple and discount rate.

3. Material accounting policies

The 2024 amendment to IAS 1 *Presentation of Financial Statements* has been issued. The Company will adopt this standard effective January 1, 2024, and this amendment may have an impact on the Company. The Company has not completed its evaluation of the effect of adopting these standards on its audited consolidated financial statements.

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) Cash and cash equivalents

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

(ii) 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.

(iii) 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.

(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.

(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 the Statement of Comprehensive Income 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.

(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.

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 as the excess of fair value over consideration paid with respect to a business combination. CGUs to which goodwill has been allocated are tested for impairment annually, or more frequently if there are indicators of impairment. Intangible assets with indefinite lives 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) 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.

(k) Impairment

(i) Non-derivative financial assets

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

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

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

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

(ii) Non-financial assets

For impairment testing, assets are grouped together into CGUs, which are the smallest group of assets that generate 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 asset or CGU's recoverable amount is estimated. The cash-generating units that goodwill has been allocated to are tested for impairment annually or when there are indicators.

The recoverable amount of an asset, or CGU, 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. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to the other assets of the CGU prorated on the basis of the carrying amount of each asset in the CGU. Impairment losses are recognized in the Statement of Comprehensive Income.

(l) Revenue

Revenue is assessed based on a model with two approaches to recognizing revenue: at a point in time and over time. The model features a contract-based five step analysis of transactions to determine whether, how much and when revenue is recognized. The following describes the accounting policies for each revenue stream, including the timing of each performance obligation and any significant payment terms.

(i) SaaS
Revenue from sales of Software as a Service ("SaaS") 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.

(m) Employee benefits

(i) 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.

FLYHT estimates the expected forfeiture rate at the option grant date and updates the estimate over time as new information becomes available. Forfeitures may occur if the employee's relationship with the Company is terminated prior to vesting or expiry.

(n) Share-based payment transactions to non-employees

(i) Stock options granted to consultants

The Company grants stock options to consultants. These share-based payment transactions are equity-settled. Transactions with non-employees are measured based on the fair value of the goods or services received, at the receipt date. Fair value is measured at the date the Company obtains the goods or the counterparty renders service.

FLYHT estimates the expected forfeiture rate at the option grant date and updates the estimate over time as new information becomes available. Forfeitures may occur if consultants do not fulfill their obligations before the options vest, or if the consultant's relationship with the Company is terminated prior to expiry.

(o) Foreign currency

(i) 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.

(p) 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) 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.

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 end of the reporting period.

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 were held in escrow, to 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: trade name	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 CrossConsense CGU and is fully deductible for tax purposes.

The fair value of the cash, accounts receivable, accounts payable and tangible assets acquired approximated the book value and included trade receivables of $409,985. 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.

6. Trade and other receivables

	December 31, 2023 $	December 31, 2022 $
Trade receivables (note 25)	2,891,745	5,030,473
Non-trade receivables and accrued receivables	4,455	96,865
Total	**2,896,200**	**5,127,338**

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

7. Inventory

	December 31, 2023 $	December 31, 2022 $
Raw materials	1,577,061	1,601,058
Work in progress	-	-
Finished goods	1,111,926	1,101,071
Balance	**2,688,987**	**2,702,129**
Less current portion	(1,180,757)	(1,385,048)
Non-current portion	1,508,230	1,317,081

In 2023 Raw materials and Finished goods recognized as cost of sales amounted to $2,770,305 (2022: $3,261,573). Included in this amount was a write down of inventories amounting to $215,279 (2022: $598,002) resulting from the review of slow-moving inventory parts. All inventories are pledged as security for the bank loan (note 14).

8. Property and equipment

2023	Computers and Software $	Equipment $	Leasehold Improvements $	Leased Assets $	Total $
Cost					
Balance at January 1	874,103	792,963	5,322	2,850,975	4,523,363
Additions	19,134	14,158	-	26,710	60,002
Disposals	(13,571)	(33,107)	-	-	(46,678)
Cumulative translation adjustment	(470)	6	19	2,695	2,250
Balance at December 31	879,196	774,020	5,341	2,880,380	4,538,937
Accumulated Depreciation					
Balance at January 1	671,952	351,430	283	660,594	1,684,259
Depreciation for the year	65,010	49,505	1,064	350,189	465,768
Disposals	(11,662)	(21,396)	-	-	(33,058)
Cumulative translation adjustment	2	-	-	9	11
Balance at December 31	725,302	379,539	1,347	1,010,792	2,116,980
Carrying Amounts					
At January 1	202,151	441,533	5,039	2,190,381	2,839,104
At December 31	**153,894**	**394,481**	**3,994**	**1,869,588**	**2,421,957**

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)	(1,120,307)
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	4,523,363
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)	(1,100,105)
Cumulative translation adjustment	10,233	7,486	335	53,887	71,941
Balance at December 31	671,952	351,430	283	660,594	1,684,259
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**

As of December 31, 2023, all property and equipment are pledged as security for the bank loan (note 14).

9. Goodwill

	December 31, 2023 $	December 31, 2022 $
Gross carrying amount		
Balance at January 1	867,726	-
Acquired through business combination (note 5)	-	837,258
Cumulative translation adjustment	8,101	30,468
Balance at December 31	875,827	867,726
Carrying Amounts		
At January 1	867,726	-
At December 31	**875,827**	**867,726**

Goodwill of $875,827 is attributable to the CrossConsense CGU. The Company did not identify indicators of impairment in 2023. During the Q4 2023 annual testing of goodwill, the recoverable amount of the CrossConsense CGU was determined based on value in use. The recoverable amount was determined based on discounted cash flows using a discount rate of 14.9% (27.9% pre-tax), and a terminal growth multiple of 5.1x was used to extrapolate cash flow projections beyond the four-year period covered by the most recent forecasts. During the 2023 testing of goodwill, it was determined that the recoverable amount was above the carrying amount and as such no impairment was recognized. The recoverable amount exceeded carrying value by $203,815.

A decrease in discount rate of 1% would result in a decrease in the recoverable amount of $68,317. A decrease in terminal growth multiple of 1.0x would result in a decrease in the recoverable amount of $135,862.

10. Intangible assets

2023	Licenses	Customer Relationships	Tradenames	Intellectual Property	Total
	$	$	$	$	$
Cost					
Balance at January 1	-	1,582,723	225,188	229,226	2,037,137
Disposals	-	-	-	-	-
Cumulative translation adjustment	-	14,777	2,103	-	16,879
Balance at December 31	-	1,597,500	227,291	229,226	2,054,016
Accumulated Amortization					
Balance at January 1	-	133,278	17,830	-	151,108
Amortization for the year	-	170,151	22,763	-	192,914
Impairment loss	-	-	-	-	-
Cumulative translation adjustment	-	2,886	(1,762)	-	1,124
Balance at December 31	-	306,315	38,831	-	345,146
Carrying Amounts					
At January 1	-	1,449,445	207,358	229,226	1,886,029
At December 31	**-**	**1,291,185**	**188,459**	**229,226**	**1,708,870**

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**

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 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 8 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 14).

11. Trade payables and accrued liabilities

	December 31, 2023 $	December 31, 2022 $
Trade payables	2,582,657	2,161,822
Compensation and statutory deductions	382,140	323,685
Accrued liabilities	132,697	250,762
Balance, December 31	**3,097,494**	**2,736,269**

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

12. Customer deposits

	December 31, 2023 $	December 31, 2022 $
Opening balance	376,668	609,555
Payments received	2,665,320	2,376,293
Recognized as revenue	(2,019,159)	(2,609,180)
Balance, December 31	**1,022,829**	**376,668**

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.

13. Contract liabilities

	December 31, 2023 $	December 31, 2022 $
Opening balance	922,952	-
Acquired (CrossConsense business combination)	-	807,082
Payments received	1,055,839	1,027,392
Recognized as revenue	(972,872)	(940,892)
Cumulative translation adjustment	47,050	29,370
Balance, December 31	**1,052,969**	**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.

14. Loans and Borrowings

Bank loans

The Company has an operating demand loan available through a Canadian chartered bank for up to a maximum of $2.0 million CAD. The operating demand loan bears interest at the Canadian chartered bank prime plus 1.5%. Security includes accounts receivable, cash collateral in the form of a $500,000 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 loan includes a general covenant allowing the bank to demand payment of, or cancel or restrict availability of, any unutilized portion of the loan. This facility was undrawn at both December 31, 2022 and 2023.

FLYHT has a performance guarantee valued at £500,000 as required by a customer contract. The guarantee was issued through a standing letter of credit under an available banking facility and is insured by Export Development Canada. The Company has assessed the expected loss arising from the guarantee to not be material; therefore, no provision has been recognized against the guarantee.

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 while an amendment in March 2024 reduced payments required from April 2024 – March 2025, with the resulting difference added to the amount of each payment due from April 2025 – September 2025. Repayments in 2023 totaled $468,000 (2022: $468,000). The carrying value of the amount owing under this program at December 31, 2023 is $757,953 (December 31, 2022: $1,132,345).

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. While an amendment in March 2024 reduced payments required from April 2024 – March 2025, with the resulting difference added to the amount of each payment due from April 2025 – October 2028. Repayments in 2023 totaled $138,051 (2022: $nil). The carrying value of the amount owing under this program at December 31, 2023 is $2,221,217 (December 31, 2022: $2,202,931).

Both WINN loans are interest free.

Under the Strategic Aerospace and Defence Initiative ("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 $208,715 was made in 2023 (2022: $181,493). The carrying value of the amount owing under this program at December 31, 2023 is $1,329,622 (December 31, 2022: $1,331,720).

In May 2021, the Company received funding of $250,000 through the Business Development Bank of Canada's ("BDC") Highly Affected Sectors Credit Availability Program ("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 2023 totaled $27,778 (2022: $16,204). The carrying value of the amount owing under this program at December 31, 2023 is $187,742 (December 31, 2022: $210,777).

A summary of the carrying value of the government loans as at December 31, 2023 and changes during the year and comparative year are presented below.

	2023 Total	**2022 Total**
Balance January 1	4,877,773	4,456,286
Contributions received	-	947,368
Grant portion	-	(324,926)
Interest accretion	470,148	474,580
Gain on loan modification	-	-
Repayment	(851,387)	(675,535)
Balance December 31	**4,496,534**	**4,877,773**
Less current portion	(1,234,335)	(828,345)
Non-current portion	3,262,199	4,049,428

15. Lease liability

In conjunction with the CrossConsense business combination that occurred on March 17, 2022 FLYHT inherited the leasing arrangement for CrossConsense's head office. The remaining term of the lease upon acquisition is 3.5 years, with an annual payment amount of €102,915 EUR ($150,588 CAD) in 2023 and consecutive annual amounts to be adjusted based on Germany's annual consumer price index ("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.

	2023 $	2022 $
Opening balance	2,709,922	2,502,675
Additions	26,710	482,209
Finance costs (note 23)	110,539	110,426
Lease payments	(447,158)	(395,725)
Disposals	-	(10,234)
Cumulative translation adjustment	2,172	20,571
Balance, December 31	**2,402,185**	**2,709,922**
Less current portion	(466,670)	(436,581)
Non-current portion	**1,935,515**	**2,273,341**

16. Provisions

Product warranty	2023 $	2022 $
Balance January 1	11,087	13,850
Provision made during the period	6,749	5,744
Provision extinguished	(1,241)	(3,162)
Provision re-evaluation	39,017	1,494
Provision used during the period	(12,463)	(6,839)
Balance, December 31	**43,149**	**11,087**

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.

17. Capital and other components of equity

Share Capital

Authorized:

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

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

Issued and outstanding:

Common shares:	Number of Shares	Value $
Balance January 1, 2022	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**
Exercise of employee options	193,176	180,310
Balance December 31, 2023	**38,997,650**	**72,607,412**

Option exercises during 2023 have resulted in the Company issuing a total of 193,176 shares for total proceeds of $98,798.

Stock option plan

The Company grants stock options to its directors, officers, employees and consultants. The following stock options were granted in 2023:

- 449,400 stock options to employees, officers and directors under the stock option plan with an exercise price of $0.94. The options will vest in equal tranches on May 11, 2024, 2025 and 2026 and will expire on May 11, 2027.
- 26,500 stock options to investor relations consultants with an exercise price of $0.94. The options will vest in equal tranches on August 11, 2023, November 11, 2023, February 11, 2024, and May 11, 2024. These options are set to expire on May 11, 2027.

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, 2023, there were 3,899,765 (2022: 3,880,447) common shares reserved for this purpose.

A summary of the Company's outstanding stock options as at December 31, 2023 and 2022 and changes during these years is presented below.

	2023		**2022**	
	Number of options	**Weighted average exercise price $**	**Number of options**	**Weighted average exercise price $**
Outstanding, January 1	1,735,210	0.75	1,803,481	0.83
Options granted	475,900	0.94	993,715	0.72
Options exercised	(193,176)	0.51	(487,598)	0.66
Options expired	(510,346)	1.01	(574,388)	1.03
Outstanding December 31	**1,507,588**	**0.75**	**1,735,210**	**0.75**
Unvested options	870,168	0.81	1,034,263	0.67
Outstanding and exercisable, December 31	**637,420**	**0.64**	**700,947**	**0.81**

The exercise prices for options outstanding at December 31, 2023 were as follows:

	All options		**Exercisable options**	
Exercise price:	**Number**	**Weighted average remaining contractual life (years)**	**Number**	**Weighted average remaining contractual life (years)**
$0.52	1,666	0.8	-	0.8
$0.57	245,478	1.3	153,057	1.3
$0.59	276,574	0.5	276,574	0.5
$0.69	30,000	0.8	30,000	0.8
$0.74	414,070	2.3	132,907	2.3
$0.82	40,000	2.6	13,333	2.6
$0.93	40,760	1.6	27,173	1.6
$0.94	459,040	3.4	4,375	3.4
Total	**1,507,588**	**2.1**	**637,420**	**1.2**

The weighted average fair value of the options granted during the year that were valued using the Black-Scholes option pricing model was $0.32 (2022: $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:

	2023	**2022**
Risk-free interest rate	3.50%	2.93%
Expected life (years)	2.08	1.76
Volatility in the price of the Company's common shares	58%	64%
Dividend yield rate	0.00%	0.00%

Warrants

	Number of warrants	**Weighted average exercise price $**	**Value $**
Outstanding January 1, 2022	2,667,610	1.25	954,535
Warrants expired	(2,667,610)	1.25	(954,535)
Outstanding December 31, 2022	**-**	**-**	**-**
Outstanding December 31, 2023	**-**	**-**	**-**

18. Earnings per share

The calculation of basic and diluted earnings per share for the year ended December 31, 2023 was based on a weighted average number of common shares outstanding of 38,904,152 (basic and diluted) (December 31, 2022: 38,151,602 basic and diluted). Both calculations of diluted earnings per share did not include outstanding stock options because they would be anti-dilutive.

19. Disaggregation of revenue and non-current assets

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 $4,374 (Denver CO, USA) and $6,915 (Frankfurt, Germany)
- Leased premises valued at $158,321 (Frankfurt, Germany)

	For the year ended December 31	
	2023	2022
	$	$
United States & Mexico	5,795,173	12,224,340
Asia	1,671,890	975,081
China	1,109,486	1,963,049
Middle East	587,969	607,445
Canada	3,121,656	2,900,423
Australia	723,939	472,278
Africa	546,791	495,874
Europe	6,511,146	4,069,501
South/Central America	76,529	171,169
Total	**20,144,579**	**23,879,160**

The following shows revenue per major product and service categories.

	For the year ended December 31	
	2023	2022
	$	$
SaaS	10,693,098	8,157,886
Hardware	4,273,464	4,720,204
Licensing	1,962,223	9,101,130
Technical Services	3,215,794	1,899,940
Total	**20,144,579**	**23,879,160**

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 $1,493,080 CAD as of December 31, 2023.

Major customers

Revenues from the largest customer represents approximately 10.5% of the Company's total revenues for the year ended December 31, 2023 (2022: 38.9%).

20. Distribution expenses

	For the year ended December 31 2023 $	2022 $
Salaries and benefits	4,166,651	4,136,208
Stock based compensation	52,690	57,674
Contract labour	962,400	880,600
Office	274,554	219,720
Travel	324,468	266,070
Equipment and maintenance	254,624	177,730
Depreciation and amortization	215,444	204,962
Marketing	135,845	158,281
Other government grants	-	(222,108)
Bad debt reserve	35,794	32,530
Total	**6,422,470**	**5,911,667**

21. Administration expenses

	For the year ended December 31 2023 $	2022 $
Salaries and benefits	1,666,945	1,712,234
Stock based compensation	68,076	101,355
Contract labour	380,110	1,179,042
Office	683,577	672,276
Legal fees	57,761	173,751
Audit and accounting	376,993	350,840
Investor relations	158,965	145,091
Travel	34,568	153,295
Equipment and maintenance	321,660	348,842
Depreciation and amortization	291,155	273,445
Other government grants	-	(48,258)
Other	8,374	20,379
Total	**4,048,184**	**5,082,292**

22. Research, development and certification engineering expenses

	For the year ended December 31 2023 $	2022 $
Salaries and benefits	3,925,437	4,359,273
Stock based compensation	24,071	19,870
Contract labour	958,234	441,551
Office	137,957	138,624
Travel	41,793	54,035
Equipment and maintenance	115,926	118,477
Components	87,392	45,186
Depreciation and amortization	152,083	181,632
Grant WINN loan (note 14)	-	(324,926)
Other government grants	(594,081)	(413,374)
Other	-	139
Total	**4,848,811**	**4,620,487**

Other government grants relate to amounts received from the United States government under the Employee Retention Tax Credit program (“ERTC”), the Canadian government under the Scientific Research and Experimental Development (“SRED”) tax refund program and the Alberta government under the Alberta Innovates programs.

23. Net Finance Costs

	For the year ended December 31	
	2023	2022
	$	$
Interest income on bank deposits	37,514	26,576
Net foreign exchange gain	76,050	13,741
Finance income	113,564	40,317
Bank service charges	78,177	39,217
Interest on lease liability	110,539	110,426
Interest on BDC loan	13,586	14,938
Government grant interest accretion	456,562	459,642
Finance costs	658,864	624,223
Net finance costs	**545,300**	**583,906**

24. Income tax expense

Current Tax Expense

	2023	2022
	$	$
Current income tax expense	11,872	10,541
Deferred income tax expense	-	-
	11,872	**10,541**

Deferred Tax Expense

Deferred tax liabilities

Recognized deferred tax assets (liabilities) are attributable to the following:	2023 $	2022 $
PP&E	(29,399)	(25,929)
Intangibles	(10,611)	-
Lease liabilities	26,992	-
Unrealized foreign exchange gains	(16,636)	-
Non-capital loss carry-forward	29,654	25,929
Total	**-**	**-**

Unrecognized deferred tax assets

Deferred tax assets have not been recognized in respect of the following deductible temporary differences:	2023 $	2022 $
Intangible assets	298,907	60,550
Lease liabilities	2,234,532	2,477,337
Reserves and FX	1,504,577	929,784
Non-capital loss carry-forwards	48,706,767	45,488,281
Share issue costs	22,286	193,705
Scientific research and experimental development expenditures	26,059,933	24,649,934
Total	**78,827,003**	**73,799,591**

The Company has non-capital losses for income tax purposes of approximately $48,848,793 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, $478,491 were incurred in the US which can be carried forward indefinitely and $879,269 were incurred in Germany and expire in five years. The remaining losses of $47,491,033 were incurred in Canada and will begin to expire in 2027.

Reconciliation of effective tax rate	2023 $	2022 $
Income (loss) before tax	(4,037,499)	(992,492)
Tax Rate	23%	23%
Expected income tax recovery	(928,624)	(228,273)
Non-deductible (taxable) amounts	14,028	46,245
Stock based compensation	33,313	41,147
Change in unrecognized temporary differences	893,155	151,422
	11,872	**10,541**

25. Financial risk management

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

Credit risk

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Management considers the demographics of the Company's customer base, including the default risk of the industry and country in which customers operate. Approximately 10.5% (2022: 39%) of the Company's 2023 revenue is attributable to transactions with a single customer. There is no significant geographic concentration of outstanding balances, which has a minimizing impact on the Company's credit risk.

Each new customer is analyzed individually for creditworthiness before the Company's standard payment and delivery terms and conditions are offered. Customers that fail to meet the Company's benchmark creditworthiness may be required to transact with FLYHT only on a prepayment basis. To further reduce credit exposure, the sale of many solutions requires payment in advance of any product shipment. Additionally, credit insurance has been obtained on select customers whose balances have not been prepaid. At each reporting date, the Company establishes an allowance for impairment that represents its estimate of expected losses.

The aging of receivables at the reporting date was:

December 31, 2023	**0-30 days**	**31-60 days**	**61-90 days**	**91+ days**	**Total**
	$	**$**	**$**	**$**	**$**
Accounts receivable	2,806,780	86,361	7,541	176,114	3,076,796
Impairment	(8,541)	(1,762)	(1,762)	(168,531)	(180,596)
Net receivable	**2,798,239**	**84,599**	**5,779**	**7,583**	**2,896,200**

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**

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, 2023 and 2022 was:

	2023	**2022**
	$	**$**
Balance, January 1	192,495	260,945
Provision	3,139	177,977
Recovered	-	(146,244)
Amounts written off	(15,038)	(100,183)
Balance, December 31	**180,596**	**192,495**

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, 2023	Less than 1 year $	1-2 years $	2-5 years $	> 5 years $	Total $
Accounts payable	2,582,657	-	-	-	2,582,657
Compensation and statutory deductions	382,140	-	-	-	382,140
Accrued liabilities	132,697	-	-	-	132,697
Lease payments	466,670	441,150	1,083,668	755,541	2,747,029
Loans and borrowings	733,104	1,064,945	3,438,687	553,261	5,789,997
Total	**4,297,268**	**1,506,095**	**4,522,355**	**1,308,802**	**11,634,520**

Refer to note 2(d) & 2(e) 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 $114,528 (2022: $165,821) and a strengthening of the Canadian dollar would decrease net earnings by approximately $114,528 (2022: $165,821).

With the 2022 acquisition of CrossConsense, a portion of the Company's 2023 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 $24,792 (2022: $15,650) and a strengthening of the Canadian dollar would decrease net earnings by approximately $24,792 (2022: $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, 2023, working capital denominated in U.S. dollars was approximately positive $344,744 (2022: positive $3,092,158). As a result, a 1% weakening of the Canadian dollar would increase net earnings by approximately $3,447 (2022: $30,922) and a strengthening of the Canadian dollar would decrease net earnings by approximately $3,447 (2022: $30,922).

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, 2023, working capital denominated in euros was approximately positive $843,856. As a result, a 1% weakening of the Canadian dollar would increase net earnings by approximately $8,439 (2022: $5,550) and a strengthening of the Canadian dollar would decrease net earnings by approximately $8,439 (2022: $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, 2023 and 2022 was minimal as the credit facility had not been drawn.

Market risk

Market risk is the risk that changes in market conditions, such as foreign exchange rates, interest rates and will affect the Company's income or the value of its financial instruments. The Company's objective in managing market risk is to manage and control exposure, while optimizing return.

Fair values versus carrying amounts

As the WINN and SADI contributions are repayable loans at below market rates, the carrying amounts have been determined by employing a discount rate based on debt market conditions as well as factors specific to the Company's operations and financial position (note 14). The fair values of financial assets and all other liabilities approximate carrying values due to the short-term nature of the instruments.

Capital management

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

26. Government grants

No contributions were received from WINN for the year ended December 31, 2023 (2022: $947,368).

The Company did not recognize any amount in government financial relief related to COVID-19 in 2023 (2022: $422,603).

27. 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.

In Q3 2023 FLYHT issued a performance guarantee valued at £500,000 as required by a customer contract. The guarantee was issued through an available banking facility that allows for a maximum of $900,000 and is insured by Export Development Canada. The associated costs have been recognized in the Statement of Comprehensive Income, Distribution expenses category. The Company has assessed the expected loss arising from the guarantee to not be material; therefore, no provision has been recognized.

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 are considered in the normal course of business and have been measured at their exchange amount.

	For the year ended December 31	
	2023	**2022**
Amounts included in:	**$**	**$**
Contract labour	107,500	153,271
Accounts payable	37,500	26,885

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:

	2023 $	2022 $
Salary	1,319,678	1,669,448
Director fees	175,448	173,085
Variable compensation	-	57,578
Share-based payments	77,714	93,935
Short-term employee benefits	121,450	156,439
Total	**1,694,290**	**2,150,485**

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%

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)

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Directors

Mary McMillan	Executive Chairman, FLYHT Aerospace Solutions Ltd.
Brent Rosenthal	Mountain Hawk Capital Partners, LLC
Doug Marlin	President, Marlin Ventures Ltd.
Mike Brown	Partner, Nanaimo Law
Paul Takalo	Director
Peter Large	Director
Nancy Young	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
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