

FINANCIAL STATEMENTS
FLYHT AEROSPACE SOLUTIONS LTD.

2017



FLYHT[™]
INSIGHT • ACTION • CONTROL

Independent Auditors' Report

To the Shareholders of FLYHT Aerospace Solutions Ltd.

We have audited the accompanying consolidated financial statements of FLYHT Aerospace Solutions Ltd., which comprise the consolidated statement of financial position as at December 31, 2017 and December 31, 2016, the consolidated statements of comprehensive income (loss), changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of FLYHT Aerospace Solutions Ltd. as at December 31, 2017 and December 31, 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 2 in the consolidated financial statements, which indicates that FLYHT Aerospace Solutions Ltd. is dependent upon maintaining profitable operations and/or additional financing to fund its ongoing operations. These conditions, along with other matters as set forth in Note 2 in the consolidated financial statements, indicate the existence of a material uncertainty that may cast significant doubt about FLYHT Aerospace Solutions Ltd.'s ability to continue as a going concern.



Chartered Professional Accountants
April 10, 2018
Calgary, Canada

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	December 31, 2017	December 31, 2016
	\$	\$
Assets		
Current Assets		
Cash and cash equivalents (note 6)	2,014,135	709,958
Restricted cash	-	250,000
Trade and other receivables (note 7)	1,887,251	2,105,385
Deposits and prepaid expenses	391,191	216,819
Inventory (note 8)	1,563,558	1,556,794
Total current assets	5,856,136	4,838,956
Non-current assets		
Property and equipment (note 9)	398,272	335,836
Intangible assets (note 10)	34,992	34,992
Inventory (note 8)	859,448	1,306,422
Total non-current assets	1,292,712	1,677,250
Total assets	7,148,847	6,516,206
Liabilities		
Current liabilities		
Trade payables and accrued liabilities (note 11)	1,868,563	1,845,408
Customer deposits (note 12)	1,687,971	317,899
Unearned revenue (note 13)	413,809	827,235
Loans and borrowings (note 14)	112,578	97,895
Finance lease obligations	-	15,553
Current tax liabilities (note 26)	12,211	10,776
Total current liabilities	4,095,132	3,114,766
Non-current liabilities		
Loans and borrowings (note 14)	1,842,439	974,746
Provisions (note 16)	91,713	549,335
Total non-current liabilities	1,934,152	1,524,081
Total liabilities	6,029,284	4,638,847
Equity (deficiency)		
Share capital (note 17)	58,409,225	57,514,646
Warrants (note 17)	911,282	1,139,934
Contributed surplus	9,349,871	9,017,979
Deficit	(67,550,815)	(65,795,200)
Total equity (deficiency)	1,119,563	1,877,359
Total liabilities and equity	7,148,847	6,516,206

See accompanying notes to the consolidated financial statements.

Going concern (note 2d)

On behalf of the board



Director – Bill Tempany



Director – Paul Takalo

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

For the year ended December 31

	2017 \$	2016 \$
Revenue (note 19)	14,018,750	14,331,191
Cost of sales	4,772,680	4,521,502
Gross profit	9,246,070	9,809,689
Other income (note 21)	-	(3,223,166)
Distribution expenses (note 22)	4,951,471	4,907,039
Administration expenses (note 23)	3,158,529	3,087,656
Research, development and certification engineering expenses (note 24)	2,519,274	2,601,229
Income (loss) from operating activities	(1,383,204)	2,436,931
Finance income (note 25)	15,756	30,368
Finance costs (note 25)	379,262	743,867
Net finance costs	363,506	713,499
Income (loss) before income tax	(1,746,710)	1,723,432
Income tax expense (note 26)	8,905	10,714
Income (loss) and comprehensive income (loss) for the period	(1,755,615)	1,712,718
Income (loss) per share		
Basic and diluted income (loss) per share (note 18)	(0.08)	0.09

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (DEFICIENCY)

For the years ended December 31, 2017 and 2016

	Share Capital \$	Convertible Debenture \$	Warrants \$	Contributed Surplus \$	Deficit \$	Total Equity (Deficit) \$
Balance at						
December 31, 2016	57,514,646	-	1,139,934	9,017,979	(65,795,200)	1,877,359
Loss for the period	-	-	-	-	(1,755,615)	(1,755,615)
Total comprehensive loss for the period	-	-	-	-	(1,755,615)	(1,755,615)
Contributions by and distributions to owners						
Share-based payment transactions	-	-	-	459,396	-	459,396
Share options exercised	379,396	-	-	(127,504)	-	251,892
Warrants exercised	515,183	-	(228,652)	-	-	286,531
Total contributions by and distributions to owners	894,579	-	(228,652)	331,892	-	997,819
Balance at						
December 31, 2017	58,409,225	-	911,282	9,349,871	(67,550,815)	1,119,563
Balance at						
December 31, 2015	53,895,046	222,531	-	8,439,136	(67,507,918)	(4,951,205)
Loss for the period	-	-	-	-	1,712,718	1,712,718
Total comprehensive loss for the period	-	-	-	-	1,712,718	1,712,718
Contributions by and distributions to owners						
Issue of common shares	5,086,512	-	-	-	-	5,086,512
Share issue costs	(345,081)	-	-	-	-	(345,081)
Share-based payment transactions	-	-	-	362,345	-	362,345
Share options exercised	18,103	-	-	(6,033)	-	12,070
Warrants issued	(1,139,934)	-	1,139,934	-	-	-
Reclassified to Contributed Surplus	-	(222,531)	-	222,531	-	-
Total contributions by and distributions to owners	3,619,600	(222,531)	1,139,934	578,843	-	5,115,846
Balance at						
December 31, 2016	57,514,646	-	1,139,934	9,017,979	(65,795,200)	1,877,359

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31

	2017 \$	2016 \$
Cash flows from (used in) operating activities		
Income (loss) for the period	(1,755,615)	1,712,718
Depreciation – property plant and equipment	143,493	66,679
Convertible debenture accretion	-	509,113
Payment of debenture interest	-	(384,873)
Amortization of debenture issue costs	-	5,295
Grant portion of contributions from WINN	(318,310)	-
Government grant accretion	223,795	178,369
Equity-settled share-based payment transactions	459,396	362,345
Change in inventories	440,210	(210,098)
Change in trade and other receivables	96,546	(1,149,742)
Change in prepayments	(174,372)	(78,958)
Change in trade and other payables	78,207	134,311
Change in customer deposits	1,370,072	(702,776)
Change in provisions	(457,622)	285,738
Change in unearned revenue	(413,426)	(318,106)
Unrealized foreign exchange loss	146,300	29,368
Interest expense	681	2,736
Interest paid	(681)	(2,736)
Interest income	(15,756)	(30,368)
Interest received	15,756	30,368
Income tax expense	8,905	10,714
Income tax paid	(7,470)	(4,916)
Net cash from (used in) operating activities	<u>(159,891)</u>	<u>445,181</u>
Cash flows used in investing activities		
Acquisitions of property and equipment	(208,416)	(199,740)
Disposal of property and equipment	2,487	-
Net cash used in investing activities	<u>(205,929)</u>	<u>(199,740)</u>
Cash flows from (used in) financing activities		
Share issue costs	-	(345,081)
Redemption of GIC	250,000	-
Proceeds from issue of shares and warrants	-	5,086,512
Proceeds from exercise of share options and warrants	538,423	12,070
Contributions from WINN	1,080,658	-
Repayment of debenture	-	(5,360,000)
Repayment of borrowings	(103,767)	(90,234)
Payment of finance lease liabilities	(15,553)	(27,923)
Net cash from (used in) financing activities	<u>1,749,761</u>	<u>(724,656)</u>
Net (decrease) in cash and cash equivalents	1,383,941	(479,215)
Cash and cash equivalents, beginning	709,958	1,301,955
Effect of exchange rate fluctuations on cash held	(79,764)	(112,782)
Cash and cash equivalents, ending	<u>2,014,135</u>	<u>709,958</u>

See accompanying notes to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Reporting entity

FLYHT Aerospace Solutions Ltd. (the “Company” or “FLYHT”) was founded in 1998 under the name AeroMechanical Services Ltd. FLYHT is a public company incorporated under the Canada Business Corporations Act, and is domiciled in Canada. The Company has been listed on the TSX Venture Exchange since March 2003, first as TSX.V: AMA and as TSX.V: FLY since 2012 and has been listed on the OTCQX marketplace since June 2014 as OTCQX: FLYLF. The Company’s head office is located at 300E, 1144 – 29th Avenue NE, Calgary, Alberta T2E 7P1.

The consolidated financial statements of the Company as at and for the years ended December 31, 2017 and 2016 consist of the Company and its subsidiaries.

FLYHT’s mission is to improve aviation safety, efficiency and profitability. Airlines, leasing companies, fractional owners and original equipment manufacturers have installed the Automated Flight Information Reporting System (AFIRS™) on their aircraft to capture, process and stream aircraft data with real-time alerts. AFIRS sends this information through satellite networks to the UpTime™ cloud-based data center, which provides aircraft operators with direct insight into the operational status and health of their aircraft and enables them to take corrective action to maintain the highest standard of operational control.

2. Basis of preparation

(a) Statement of compliance

These consolidated annual financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”). These consolidated financial statements were approved by the Board of Directors on April 10, 2018.

(b) Basis of measurement

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

(c) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the Company’s functional currency.

(d) Going concern

The consolidated financial statements have been prepared on the basis that the Company will continue to realize its assets and meet its obligations in the ordinary course of business. As at December 31, 2017 the Company had positive working capital of \$1,761,003, a deficit of \$67,550,815, a net loss in 2017 of \$1,755,615 and negative cash flow from operating activities of \$159,891 for the year.

The consistent achievement of positive earnings is necessary before the Company can consistently improve liquidity. The Company has continued to expand its cash flow potential through its continued marketing drive to clients around the world and contracts for delivery of AFIRS units and related services. It is the Company’s intention to continue to fund operations by adding revenue and its resulting cash flow as well as continue to manage outgoing cash flows. If the need arises due to market opportunities, the Company may meet those needs via the capital markets.

For the Company to continue as a going concern longer-term, it will need to achieve profitability and may require additional financing to fund ongoing operations. If general economic conditions in the industry or the financial condition of a major customer deteriorates, or revenue streams and/or markets do not improve, then the Company may have to scale back operations to create positive cash flow from existing revenue and/or raise the necessary financing in the capital markets. These material uncertainties may cast significant doubt upon the Company’s ability to continue as a going concern.

There is no assurance that the Company will be successful in attaining and sustaining profitable operations and cash flow or raising additional capital to meet its working 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 consolidated financial statements do not reflect adjustments that would otherwise be necessary if the going concern assumption was not valid, such as revaluation to liquidation values and reclassification of statement of financial position items.

(e) Accounting Estimates

The Company prepares its consolidated financial statements in accordance with accounting principles generally accepted in Canada. The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses. These estimates are based on management's historical experiences and various other assumptions that are believed by management to be reasonable under the circumstances. Such assumptions are evaluated on an ongoing basis and form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results could differ from these estimates.

The following are the Company's significant estimates, and assumptions used in preparing our financial statements:

1. The Company maintains an allowance for doubtful accounts for estimated losses that may occur if customers are unable to pay trade balances owing to the Company. This allowance is determined based on a review of specific customers, historical experience, and economic circumstances.
2. The Company evaluates its deferred tax assets at each reporting date and recognizes deferred tax assets to the extent that it is probable that future taxable profits will be available against which they can be utilized. At December 31, 2017, no deferred tax assets were recognized.
3. The Company records amounts for warranty based on historical warranty data including expense incurred in relation to warranty and failure rates. A provision is recognized upon shipment of the underlying products.
4. The Company assesses raw materials and AFIRS finished goods inventory for potential obsolescence or impairment. This provision is determined based on regular reviews of slow moving inventory.
5. The Company used a discount rate to determine the fair value of the WINN contribution, as the contribution is a repayable loan at below market interest rates. The discount rate was determined based on debt market conditions as well as factors specific to the Company's operations and financial position.

3. Significant accounting policies

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

(a) Basis of consolidation

(i) Subsidiaries

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

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

(iii) 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) Non-derivative financial assets

The Company initially recognizes loans, receivables and deposits on the date they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

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.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Loans and receivables comprise trade and other receivables, and cash and cash equivalents.

(ii) Non-derivative financial liabilities

The Company initially recognizes trade payables, loans and borrowings and finance lease liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

The Company has the following non-derivative financial liabilities: trade payables and accrued liabilities, loans and borrowings, and finance lease obligations.

These financial liabilities 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) Share capital

Common shares are classified as equity. 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.

(iv) Compound financial instruments

Compound financial instruments issued by the Company comprise convertible secured subordinate debentures that can be converted to common shares at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value.

The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition.

Interest relating to the financial liability is recognized in profit or loss. On conversion, the financial liability is reclassified to equity and no gain or loss is recognized.

(c) Inventories

Inventories are measured at the lower of cost and net realizable value. The 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 writedown to net realizable value is recognized as an expense. Reversals of previous writedowns are recognized in profit or loss in the period when the reversal occurs.

AFIRS raw material inventories include general parts, which are held pending installation and sales to customers. The weighted average cost method is used to measure cost of the AFIRS raw material inventories.

AFIRS finished goods consists of AFIRS units that have been assembled or purchased and are held pending sale to customers. The weighted average cost method is used to determine the carrying cost of purchased AFIRS units. The carrying cost of AFIRS units assembled by the Company includes AFIRS raw material costs plus a standard labour allocation.

Installations-in-progress includes product costs and other direct project costs.

(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 including those that are directly attributable 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.

Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. 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: term of lease (7 years)

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

Expenditure on research activities is expensed as incurred.

R&D costs consist primarily of consulting expenses and parts related to the design, testing, and manufacture of Automated Flight Information Reporting System (“AFIRS™”) and the design and testing of all software systems and products (including UpTime, FLYHTASD, FLYHTMail, FLYHTStream, and FLYHTFuel). Other R&D costs include testing, patent application and certification.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalized includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use, and borrowing costs on qualifying assets. Other development expenditure is recognized in profit or loss as incurred.

Capitalized development expenditure is measured at cost less accumulated amortization and accumulated impairment losses.

(ii) Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditures are recognized in profit or loss as incurred.

(iii) Amortization

Amortization is calculated based on the asset's cost less its residual value.

Estimates of amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate. Any changes in these estimates are accounted for prospectively.

(f) Leased assets

Leases where the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for according to the accounting policy applicable to that asset. Other leases are operating leases and the Company does not recognize the leased assets in its statement of financial position. Initial direct costs for operating leases are expensed immediately.

As a lessee, FLYHT has several finance leases for computer hardware and leasehold improvements.

As a lessee, FLYHT has an operating lease for its premises and some office equipment.

(g) Intangible assets

Intangible assets that are acquired by the Company and have finite useful lives are measured at cost less accumulated amortization and accumulated impairment losses.

Acquired intangible assets with indefinite useful lives are stated at cost and are not amortized.

The license with Bombardier that allows FLYHT access to technical documents has an indefinite life and is not amortized. The Company presently has dealings with Bombardier and sees no end to that relationship.

An intangible asset is derecognized on disposal or when no future economic benefits are expected from its use or disposal.

(h) Government assistance

(i) Government grants

Government grants related to qualifying research expenditures are recognized in profit or loss to match the costs that they are intended to compensate when there is reasonable assurance that they 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) Lease payments

(i) Operating lease payments

Payments made under operating leases are recognized in profit or loss on an accrual basis over the term of the lease. Initial direct costs for operating leases are immediately expensed.

(ii) Finance lease payments

Minimum lease payments made under finance leases are apportioned between finance costs and a reduction of the outstanding liability. The finance cost is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(j) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

(i) Warranties

The Company warrants that the AFIRS products shall be free of defects at minimum during the first term of each agreement. Provision required for warranties is recognized when the underlying products or services are sold. The provision is based on historical warranty data.

(k) Impairment

(i) Financial assets (including receivables)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, or indications that a debtor will enter bankruptcy.

The Company assesses impairment of each customer's receivable balance by analyzing historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss regarding a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(ii) Non-financial assets

The carrying amounts of the Company's non-financial assets, other than inventories, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For intangible assets that have indefinite useful lives, the recoverable amount is estimated at year end. The Company's non-financial assets that are subject to impairment include: property and equipment and intangible assets.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Fair value less costs to sell is assessed on an asset by asset basis at the point in time when a sale may be probable.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit", or "CGU"). The Company's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognized in profit or loss if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are allocated to reduce the carrying amounts of the assets in the CGU on a pro rata basis.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, had no impairment loss been recognized.

(l) Revenue

(i) AFIRS sales

Revenue from the sale of units is recognized when the risks and rewards are transferred to the buyer. Depending on the contract that occurs upon shipment or upon installation of the system.

(ii) Voice and data services

Revenue from Voice and data services is recognized when the services are provided.

(iii) Parts sales

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable. Revenue is recognized when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

Revenue from the sale of parts and Underfloor Stowage Units is recognized when the unit is shipped and collection is reasonably assured.

(iv) Services

Technical services are provided based on orders and contracts with customers that include fixed or determinable prices that are based on daily, hourly, or contracted rates. Revenue is recognized in proportion to the stage of completion of the transaction at the reporting date.

(v) Other income

License fees and royalties received for the use of FLYHT's assets (i.e., trademarks, patents, and software) are recognized on an accrual basis when terms of an executed sales agreement have been met, recovery of the consideration is probable, and the amount of revenue can be measured reliably.

(m) Employee benefits

(i) Short-term employee benefits

Short-term employee benefit obligations, including wages, salaries, commissions and variable compensation payments, are measured based on the amount payable and are expensed as the related service is provided.

(ii) Share-based payment transactions

The grant date fair value of share-based payment awards granted to employees is recognized as an expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards.

Share-based payment transactions are equity-settled. Share options granted to directors and employees are measured using the fair value of the equity instruments granted at the grant date, which is determined using the Black-Scholes option pricing model.

If options are promised to an employee before the grant date, the Company recognizes the expense at the service commencement date based on fair value. Once the grant date is established, the earlier estimate is revised so that the expense is recognized based on the actual grant date fair value.

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

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

(i) Stock options granted to consultants

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

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

(ii) Agent warrants

When the Company issues common shares, warrants, and debentures through brokered private placements, agent warrants may be issued to the agents as consideration for their services.

Warrants are classified as equity and recognized at fair value. Incremental costs directly attributable to the issue of warrants are recognized as a deduction from equity, net of any tax effects.

The fair value of warrants is estimated using the Black-Scholes option pricing model.

(o) Finance income and finance costs

Finance income comprises interest income which is recognized in profit or loss as it accrues, using the effective interest method.

Finance costs comprise interest expense and accretion on borrowings, and unwinding of the discount on provisions, and are recognized in profit or loss using the effective interest method.

(p) Foreign currency

(ii) Foreign currency transactions

Foreign currency transactions are translated to Canadian dollars at the exchange rate in effect on the transaction date. Foreign currency denominated monetary assets and liabilities at each reporting date are retranslated to the functional currency at the exchange rate in effect on that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate in effect on the date of the transaction.

Foreign currency differences arising on retranslation are recognized in profit or loss.

(ii) Foreign operations

The assets and liabilities of foreign operations are translated to Canadian dollars at exchange rates in effect at the reporting date. The income and expenses of foreign operations are translated to Canadian dollars at exchange rates in effect on the transaction dates.

Foreign currency differences are recognized in other comprehensive income in the cumulative translation account.

Foreign exchange gains or losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future and which, in substance, is considered to form part of the net investment in the foreign operation, are recognized in other comprehensive income in the cumulative amount of foreign currency translation differences.

(q) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

When a taxable temporary difference arises from the initial recognition of the equity component separately from the liability component of a compound financial instrument, the resulting deferred tax liability is charged directly to the carrying amount of the equity component.

(r) Earnings per share

The Company presents basic and diluted earnings per share ("EPS") data for its common shares. Basic EPS is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted EPS is determined each period by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding, for the effects of all dilutive potential common shares, which comprise debentures, convertible debentures, share options, and warrants.

4. New standards and interpretations not yet adopted

The following new accounting pronouncements have been issued but are not effective and may have an impact on the Company. All of the following new or revised standards permit early adoption with transitional arrangements depending upon the date of initial application:

IFRS 9 – Financial Instruments replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value (January 1, 2018).

IFRS 16 – Leases replaces IAS 17, leases. Under the new standard, more leases may come on-balance sheet for lessees, with the exception of leases with a term not greater than 12 months and leases considered to be of small value (January 1, 2019).

The Company has not completed its evaluation of the effect of adopting these standards on its audited annual consolidated financial statements.

IFRS 15 – Revenue from Contracts with Customers replaces IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers, and SIC 31 Revenue – Barter Transactions Involving Advertising Services. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which the Company expects will have an impact on the timing of revenue recognized. The new standard applies to contracts with customers. It does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRSs. (January 1, 2018).

The Company will adopt this standard effective January 1, 2018. Evaluation of the impact of adoption continues, with identification of performance obligations and the required allocation of the total transaction price a key area of focus. The Company is not able at this time to estimate reasonably the impact that the adoption of this standard will have on the financial statements.

5. Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods, all of which are determined using a number of observable inputs other than quoted prices in active markets.

- (a) Share based payment transactions: measured using the Black-Scholes option pricing model;
- (b) Loans and borrowings: for measurement purposes, fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the inception of the loan. In respect of the liability component of convertible debentures, the market rate of interest is determined by reference to similar liabilities that do not have a conversion feature.

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

6. Cash and cash equivalents

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

7. Trade and other receivables

	December 31, 2017 \$	December 31, 2016 \$
Trade receivables	1,586,908	2,086,572
Non-trade receivables and accrued receivables	300,343	18,813
Total	1,887,251	2,105,385

Non-trade receivables consist of earned interest income receivable, input tax credits, and customer receivables pending billable events. The Company's exposure to credit and currency risks is disclosed in note 27.

8. Inventory

	December 31, 2017 \$	December 31, 2016 \$
AFIRS raw materials	1,742,147	1,190,659
AFIRS finished goods	449,195	1,205,068
Installations in progress	231,664	467,489
Balance	2,423,006	2,863,216
Less current portion	(1,563,558)	(1,556,794)
Non-current portion	859,448	1,306,422

In 2017 AFIRS raw materials and changes in AFIRS finished goods and installations in progress recognized as cost of sales amounted to \$3,586,699 (2016: \$3,075,401). Included in this amount was write down of inventories amounting to \$93,498 (2016: \$112,449) resulting from a review of slow moving inventory parts. All inventories are pledged as security for the bank loan.

9. Property and equipment

2017	Computers and Software	Equipment	Leasehold Improvements	Total
	\$	\$	\$	\$
Cost				
Balance at January 1	705,263	266,426	48,453	1,020,142
Additions	119,961	87,798	657	208,416
Disposals	-	9,065	-	9,065
Balance at December 31	<u>825,224</u>	<u>345,159</u>	<u>49,110</u>	<u>1,219,493</u>
Accumulated Depreciation				
Balance at January 1	464,125	201,509	18,672	684,306
Depreciation for the year	115,488	21,702	6,303	143,493
Disposals	-	6,578	-	6,578
Balance at December 31	<u>579,613</u>	<u>216,633</u>	<u>24,975</u>	<u>821,221</u>
Carrying Amounts				
At January 1	241,138	64,917	29,781	335,836
At December 31	<u>245,611</u>	<u>128,526</u>	<u>24,135</u>	<u>398,272</u>
2016	Computers and Software	Equipment	Leasehold Improvements	Total
	\$	\$	\$	\$
Cost				
Balance at January 1	510,911	265,370	44,121	820,402
Additions	194,352	1,056	4,332	199,740
Balance at December 31	<u>705,263</u>	<u>266,426</u>	<u>48,453</u>	<u>1,020,142</u>
Accumulated Depreciation				
Balance at January 1	420,379	184,879	12,369	617,627
Depreciation for the year	43,746	16,630	6,303	66,679
Balance at December 31	<u>464,125</u>	<u>201,509</u>	<u>18,672</u>	<u>684,306</u>
Carrying Amounts				
At January 1	90,532	80,491	31,752	202,775
At December 31	<u>241,138</u>	<u>64,917</u>	<u>29,781</u>	<u>335,836</u>

The Company leases equipment under several finance lease agreements. Certain leases provide FLYHT with the option to purchase the equipment at the end of the lease term. At December 31, 2017, the net carrying amount of leased property and equipment was nil (2016: \$47,367).

As of December 31, 2017, all property and equipment is pledged as security for the bank loan (note 14).

10. Intangible assets

The intangible asset balance of \$34,992 at December 31, 2017 (December 31, 2016: \$34,992) is the value of the license with Bombardier that allows FLYHT access to technical documents. It has an indefinite life, is not amortized, and is tested for impairment annually. The Company presently has dealings with Bombardier and foresees no end to that relationship.

All intangible assets are pledged as security for the bank loan.

11. Trade payables and accrued liabilities

	December 31, 2017	December 31, 2016
	\$	\$
Trade payables	1,340,510	769,261
Compensation and statutory deductions	348,410	873,526
Accrued liabilities	179,643	202,621
Total	<u>1,868,563</u>	<u>1,845,408</u>

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

12. Customer deposits

	December 31, 2017	December 31, 2016
	\$	\$
Opening balance	317,899	1,020,675
Payments received	5,453,511	2,681,987
Moved to unearned revenue	(4,083,439)	(3,384,763)
Balance, December 31	1,687,971	317,899

13. Unearned revenue

	2017	2016
	\$	\$
Balance January 1	827,235	1,145,341
AFIRS sales: shipped	4,083,439	3,384,763
AFIRS sales: revenue recognized	(4,476,999)	(3,703,703)
Voice and data services: prepaid	-	19,866
Voice and data services: revenue recognized	(19,866)	(19,032)
Balance December 31	413,809	827,235
Less current portion	413,809	827,235
Non-current portion	-	-

All amounts recorded in unearned revenue are non-refundable.

14. Loans and borrowings

Bank loan

The Company currently has no bank debt. On July 7, 2017, the Company amended its operating demand loan with a Canadian chartered bank to increase its borrowing availability to CAD \$1.5 million from \$250,000. The Line of Credit continues to bear interest at Canadian chartered bank prime plus 1.5%. Security includes specific accounts receivable, a guarantee under the Export Development Canada's Export Guarantee Fund and a general security agreement including a security interest in all personal property. This amendment released the GIC of \$250,000 previously pledged as security.

Government loans

On November 9, 2016, the Company signed a contribution agreement with Western Economic Diversification Canada for a Western Innovation initiative (WINN) loan, to support plans for technology development in the air and ground components of the Company's products. Under the terms of the agreement, a repayable unsecured WINN contribution to the value of the lesser of 50% of the eligible project costs to March 31, 2019 or \$2,350,000 will be received. The amount is repayable over five years commencing January 1, 2020. At December 31, 2017, the Company had received contributions totaling \$1,080,658 (2016: nil).

Under SADI, the Company has, at December 31, 2017, an outstanding repayable balance of \$1,626,814, compared to \$1,730,582 at December 31, 2016. The amount is repayable over 15 years on a stepped basis commencing April 30, 2014. The initial payment on April 30, 2014 was 3.5% of the total contribution received and the payment increases yearly by 15% until April 30, 2028 when the final payment is 24.5% of the total contribution received.

A summary of the carrying value of the SADI and WINN loans as at December 31, 2017 and 2016 and changes during these years is presented below.

	2017 SADI	2017 WINN	2017 Total	2016 SADI	2016 WINN	2016 Total
	\$	\$		\$	\$	
Balance January 1	1,072,641	-	1,072,641	984,507	-	984,507
Contributions received	-	1,080,658	1,080,658	-	-	-
Grant portion	-	(318,310)	(318,310)	-	-	-
Interest accretion	193,805	29,910	223,795	178,368	-	178,368
Repayment	(103,767)	-	(103,767)	(90,234)	-	(90,234)
Balance December 31	1,162,679	792,338	1,955,017	1,072,641	-	1,072,641
Less current portion	112,578	-	112,578	97,895	-	97,895
Non-current portion	1,050,101	792,338	1,842,439	974,746	-	974,746

Debentures

The face value of the convertible debentures issued December 23, 2010 (\$3,039,000) was redeemed in full plus accrued interest on December 23, 2016. Redeemable debentures were redeemed on June 30, 2016 for \$2,321,000 which included a 10% premium, plus accrued interest. There were no debentures issued, redeemed or outstanding in 2017.

15. Operating leases

Operating lease rentals are payable as follows:

	Premises
	\$
2018	462,678
2019	462,678
2020	462,678
2021	77,113
Total	1,465,147

Operating lease payments made in 2017 totaled \$458,145 (2016: \$453,900).

16. Provisions

Product warranty	2017	2016
	\$	\$
Balance January 1	549,335	263,596
Provision made during the period	15,496	302,654
Provision re-evaluation	(452,328)	-
Provision used during the period	(20,790)	(16,915)
Balance December 31	91,713	549,335

A provision for warranties is recognized when the underlying products or services are sold. The provision is based on historical warranty data.

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	Value
	Shares	\$
Balance January 1, 2016	17,347,764	53,895,046
Exercise of employee options	5,405	18,103
Warrants issued	-	(1,139,934)
Common shares issued (net)	3,391,008	4,741,431
Balance December 31, 2016	20,744,177	57,514,646
Consolidation rounding	(11)	-
Exercise of employee options	123,430	379,396
Exercise of warrants	191,021	515,183
Balance December 31, 2017	21,058,617	58,409,225

On May 12, 2016, the Company closed a private placement, issuing 33,910,081 units at a price of \$0.15 per unit, for total proceeds of \$5,086,512. Each unit consisted of one common share and one-half of one share purchase warrant. Each warrant entitles the holder to purchase one additional common share of the Company for a period of 24 months from the issuance of the units at a price of \$0.25. Agent's fees totaled \$317,275. A total of 2,115,167 agent's warrants were also issued, exercisable into one unit at \$0.15 per unit within 24 months from the closing date. All of the common shares and warrants issued pursuant to the private placement were subject to a 4-month hold period.

In 2017 option and warrant exercises resulted in the Company issuing a total of 314,451 shares for total proceeds of \$538,423 including:

	Quantity	Price	Proceeds
Share options	22,500	1.65	37,125
Share options	20,000	1.85	37,000
Share options	30,930	1.90	58,767
Share options	20,000	2.20	44,000
Share options	30,000	2.50	75,000
Warrants	191,021	1.50	286,531
Total	314,451		538,423

Stock option plan

The Company grants stock options to its directors, officers, employees and consultants. The following stock options were granted in 2017:

- 5,000 stock options to a consultant. The options will expire December 31, 2020 and have an exercise price of \$2.55 per share and vested immediately upon grant.
- 3,660,211 stock options to employees, officers and directors under the stock option plan. The stock options will expire December 31, 2020, and have an exercise price of \$2.20 per share and vested immediately upon grant.
- In the fourth quarter of 2017 the Company granted a total of 95,000 stock options to two employees under the stock option plan. The stock options will expire December 31, 2021 and have an exercise price of \$2.10 per share. The options will vest on November 3, 2018.

All outstanding options to employees 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, 2017, there were 2,105,862 (2016: 2,074,417) common shares reserved for this purpose.

A summary of the Company's outstanding stock options as at December 31, 2017 and 2016 and changes during these years is presented below.

	2017		2016	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Outstanding, January 1	863,337	2.60	873,630	3.19
Options granted	391,021	2.21	370,482	1.90
Options exercised	(123,430)	2.04	(5,405)	2.23
Options expired	(242,430)	3.90	(375,370)	3.27
Outstanding and exercisable, December 31	888,498	2.17	863,337	2.60
Unvested options	95,000	2.10	-	-
Outstanding, December 31	983,498	2.16	863,337	2.60

Weighted average life remaining for the options outstanding and exercisable is 2.13 years. The exercise prices for options outstanding at December 31, 2017 were as follows:

Exercise price:	All options		Exercisable options	
	Number	Weighted average remaining contractual life (years)	Number	Weighted average remaining contractual life (years)
\$1.65	25,000	1.0	25,000	1.0
\$1.85	5,000	2.0	5,000	2.0
\$1.90	296,432	2.0	296,432	2.0
\$2.10	95,000	4.0	-	-
\$2.20	335,791	3.0	335,791	3.0
\$2.50	201,275	1.0	201,275	1.0
\$2.55	5,000	3.0	5,000	3.0
\$2.75	20,000	2.0	20,000	2.0
Total	983,498	2.1	888,498	2.3

The weighted average fair value of the options granted during the year that were valued using the Black-Scholes option pricing model was \$1.10 (2016: \$1.00). The fair value of the options granted and valued using the Black-Scholes option pricing model were valued with the following weighted average assumptions:

	2017	2016
Risk-free interest rate	1.05%	0.61%
Expected life (years)	3.52	3.57
Volatility in the price of the Company's common shares	70%	73%
Dividend yield rate	0.00%	0.00%

Warrants

	Number of warrants	Weighted average exercise price \$	Value \$
Outstanding January 1, 2016	-	-	-
Warrants issued	1,695,504	2.50	886,748
Agent warrants issued	211,517	1.50	253,186
Outstanding December 31, 2016	1,907,021	2.39	1,139,934
Warrants exercised	(191,021)	1.50	(228,652)
Outstanding December 31, 2017	1,716,000	0.23	911,282

On May 12, 2016, the Company closed a private placement, issuing 33,910,081 units consisting of one common share and one-half of one share purchase warrant. 16,955,041 warrants were issued with each whole warrant entitling the holder to purchase one additional common share of the Company for a period of 24 months from the issuance at a price of \$0.25 per share. 2,115,167 agent's warrants were also issued, exercisable into one unit at \$0.15 per unit within 24 months from the closing date. All of the common shares and warrants issued pursuant to the private placement were subject to a 4-month hold period.

18. Earnings per share

Basic earnings per share

The calculation of basic and diluted earnings per share for the year ended December 31, 2017 was based on a weighted average number of common shares outstanding of 20,926,589 (basic and diluted) (2016: 19,507,065 (basic) and 19,541,958 (diluted)). The calculation of diluted earnings per share did not include stock options of 983,498 (2016: 828,295) and 1,716,000 warrants (2016: 1,850,769) because they would be anti-dilutive.

19. Revenue

	2017	2016
	\$	\$
Voice and data services	4,312,701	4,375,138
AFIRS sales	4,600,520	3,931,607
Parts sales	4,951,616	5,808,491
Services	153,913	215,955
Total	14,018,750	14,331,191

Voice and data services include fees for communications usage. AFIRS sales includes revenue from AFIRS and Dragon hardware sales along with the parts required to install the unit. Parts sales includes spare AFIRS units, spare installation kit parts, modems with related license fees and Underfloor Stowage Units. Services include technical, repair and installation support services.

20. Operating segments

The Company has one operating segment.

Geographical Information

The following revenue is based on the geographical location of customers.

	For the year ended December 31	
	2017	2016
	\$	\$
North America	7,683,296	9,007,719
South / Central America	442,603	658,319
Africa	774,407	610,886
Middle East	873,546	987,750
Europe	333,152	286,489
Australasia	819,153	719,763
Asia	3,092,593	2,060,265
Total	14,018,750	14,331,191

All non-current assets (property and equipment and intangible assets) reside in Canada.

Major customers

Revenues from the three largest customers represent approximately 37.5% of the Company's total revenues for the year ended December 31, 2017 (2016: 47.6%).

21. Other Income

The Company granted a non-exclusive license to use certain of its intellectual property to a technology company for a license fee of \$3,223,166 in 2016.

22. Distribution expenses

	For the year ended December 31	
	2017	2016
	\$	\$
Salaries and benefits	2,361,046	3,255,326
Stock based compensation	152,272	97,067
Contract labour	881,837	498,106
Office	429,294	416,733
Travel	601,172	562,645
Equipment & maintenance	53,712	25,006
Depreciation	34,438	41,580
Marketing	268,033	113,879
Other	169,667	(103,303)
Total	4,951,471	4,907,039

23. Administration expenses

	For the year ended December 31	
	2017	2016
	\$	\$
Salaries and benefits	1,326,548	1,589,395
Stock based compensation	281,675	228,058
Contract labour	431,423	172,014
Office	305,694	289,311
Legal fees	76,446	166,461
Audit and accounting	192,452	141,650
Investor relations	158,931	153,580
Brokerage, stock exchange, transfer agent fees	40,350	61,665
Travel	102,348	119,143
Equipment and maintenance	131,340	79,187
Depreciation	59,334	9,704
Other	51,988	77,488
Total	3,158,529	3,087,656

24. Research, development and certification engineering expenses

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

	For the year ended December 31	
	2017	2016
	\$	\$
Salaries and benefits	2,093,261	1,562,383
Stock based compensation	25,448	37,220
Contract labour	276,669	315,198
Office	127,221	119,530
Travel	90,911	54,595
Equipment and maintenance	125,357	111,077
Components	165,510	57,171
SRED tax credit	(116,514)	(211,790)
Depreciation	49,721	15,395
Government grants	(318,310)	-
Warranty settlement	-	540,450
Total	2,519,274	2,601,229

25. Finance income and finance costs

	For the year ended December 31	
	2017	2016
	\$	\$
Interest income on bank deposits	15,756	30,368
Finance income	15,756	30,368
Bank service charges	38,807	37,331
Net foreign exchange loss	115,979	11,023
Interest expense	681	2,736
Government grant interest accretion	223,795	178,369
Debenture interest expense and accretion	-	509,113
Debenture issuance cost amortization	-	5,295
Finance costs	379,262	743,867

26. Income tax expense

Current Tax Expense

	2017	2016
	\$	\$
Current income tax expense	8,905	10,714
Deferred income tax expense	-	-
	<u>8,905</u>	<u>10,714</u>

Deferred Tax Expense

Unrecognized deferred tax assets

Deferred tax assets have not been recognized in respect to the following items:

	2017	2016
	\$	\$
Capital assets	202,845	163,565
Intangibles	71,257	71,257
Inventory	2,157	4,880
Non-capital loss carry-forwards	9,609,044	9,445,413
Share issue costs	55,903	74,706
Scientific research and experimental development expenditures	8,345,900	8,150,696
	<u>18,287,196</u>	<u>17,910,517</u>

The Company has non-capital losses for income tax purposes of approximately \$35,520,188 which are available to be applied against future year's taxable income. The benefit of these non-capital losses has not been recognized in the consolidated financial statements because it is not probable that future taxable profit will be available against which FLYHT can use the benefits. These losses will expire as follows:

Year	Amount
	\$
2026	195,896
2027	5,596,948
2028	6,997,140
2029	2,791,748
2030	6,596,636
2031	4,351,802
2032	2,313,225
2033	1,464,723
2034	1,890,509
2035	1,697,631
2037	1,623,930
Total	<u>35,520,188</u>

Reconciliation of effective tax rate

	2017	2016
	\$	\$
Income (loss) before tax	(1,746,710)	1,723,432
Tax Rate	27%	27.0%
Expected income tax recovery	(471,612)	465,327
True up from prior year	(42,456)	(225,317)
Non-deductible expenses	13,361	13,431
Stock based compensation	124,036	94,209
Change in unrecognized temporary differences	385,582	(336,936)
	<u>8,905</u>	<u>10,714</u>

27. 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 27.2% (2016: 38.2%) of the Company's 2017 revenue is attributable to transactions with a single customer; however, geographically there is no concentration of credit risk.

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

The aging of receivables at the reporting date was:

December 31, 2017	0-30 days	31-60 days	61-90 days	91+ days	Total
	\$	\$	\$	\$	\$
Accounts receivable	1,297,204	195,228	40,177	510,891	2,043,500
Impairment	(2,012)	-	(3,522)	(150,715)	(156,249)
Net receivable	1,295,192	195,228	36,655	360,176	1,887,251
December 31, 2016	0-30 days	31-60 days	61-90 days	91+ days	Total
	\$	\$	\$	\$	\$
Accounts receivable	1,872,962	81,199	23,010	710,926	2,688,097
Impairment	-	-	-	(582,712)	(582,712)
Net receivable	1,872,962	81,199	23,010	128,214	2,105,385

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, 2017 and 2016 was:

	2017	2016
	\$	\$
Balance, January 1	582,712	537,469
Provision	160,484	45,243
Amounts written off	(586,947)	-
Balance, December 31	156,249	582,712

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, 2017	< 2	2-12	1-2	2-5	> 5 years	Total
	months	months	years	years		
	\$	\$	\$	\$	\$	
Accounts payable	1,340,510	-	-	-	-	1,340,510
Compensation and statutory deductions	46,763	274,647	27,000	-	-	348,410
Accrued liabilities	37,990	113,479	11,658	16,516	-	179,643
Loans and borrowings	-	119,333	137,234	1,628,685	822,220	2,707,472
Total	1,425,263	507,459	175,892	1,645,201	822,220	4,576,035

December 31, 2016	< 2	2-12	1-2	2-5	> 5 years	Total
	months	months	years	years		
	\$	\$	\$	\$	\$	
Accounts payable	769,261	-	-	-	-	769,261
Compensation and statutory deductions	371,303	349,223	108,000	45,000	-	873,526
Finance lease liabilities	4,970	10,826	-	-	-	15,796
Accrued liabilities	83,497	82,206	11,658	25,259	-	202,620
Loans and borrowings	-	103,768	119,333	476,546	1,030,935	1,730,582
Total	1,229,031	546,023	238,991	546,805	1,030,935	3,591,785

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 \$138,744 (2016: \$141,823) and a strengthening of the Canadian dollar would decrease net earnings by approximately \$138,744 (2016: \$141,823).

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

The Company has exposure to foreign exchange risk for working capital items denominated in U.S. dollars. At December 31, 2017, working capital denominated in U.S. dollars was approximately positive \$878,991 (2016: positive \$1,410,075). As a result, a 1% weakening of the Canadian dollar would increase net earnings by approximately \$8,790 (2016: \$14,101) and a strengthening of the Canadian dollar would decrease net earnings by approximately \$8,790 (2016: \$14,101).

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

Although there are limited expenses under contracts denominated in EUR and GBP, fluctuations in these currencies would result in insignificant foreign exchange variances. In respect of other monetary assets and liabilities denominated in foreign currencies, the Company ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

Interest rate risk

Borrowings issued at variable rates result in exposure to interest rate risk, which would affect future cash flows if interest rates were to rise. Fluctuations in the prime interest rate could result in exposure for the Company with regards to the bank credit facility, which bears interest at Canadian chartered bank prime plus 1.5%. The Company's exposure to interest rate risk as at December 31, 2017 and 2016 was minimal as the credit facility had not been drawn.

Market risk

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

Fair values versus carrying amounts

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

Capital management

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

28. Related parties

FLYHT appointed an interim CFO from June 5 to November 5, 2017. The services were provided by a company controlled by a director of FLYHT. No similar services were contracted during 2016. All of the transactions with the related party were at exchange amounts that approximated fair value and were supported by a third party receipt.

	For the three months ended December 31, 2017		For the year ended December 31	
	2017 \$	2016 \$	2017 \$	2016 \$
Amounts included in:				
Contract labour	19,200	-	83,200	-
Accounts payable and accrued liabilities	-	-	-	-

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:

	2017 \$	2016 \$
Salary	1,018,521	1,071,619
Director fees	203,551	215,869
Variable compensation	132,500	161,000
Retiring allowance	112,500	-
Share-based payments	350,095	226,813
Short-term employee benefits	59,956	190,737
Total	1,877,123	1,866,038

Directors of the Company control 3.9% (2016: 3.8%) of the voting shares of the Company.

Subsidiaries

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

29. Contractual Arrangement

Certain of the Company's sales contracts require that, in the event the Chinese government restricts use of the Iridium satellite constellation, the Company may be required to repurchase, at discounted rates, certain AFIRS units. The Iridium license was renewed by the Chinese authorities during 2015 for a further five-year term and the likelihood of a liability under these contracts is considered to be remote.

30. Subsequent events

In Q1 2018, the Company received contributions totaling \$317,195 under the WINN agreement, bringing the total received to date to \$1,397,853.

In April 2018, the Company applied to the TSX for an amendment of the exercise price of the share purchase warrants that were originally issued on May 12, 2016 from \$2.50 to \$1.60 per share purchase warrant. The warrants are set to expire on May 12, 2018.

CORPORATE INFORMATION

Registrar and Transfer Agent

Computershare Trust Company of Canada

Telephone: 1-403-267-6800

Online: Investor Centre – contact us section

www.computershare.com

Share Listing

Shares are traded on the TSX Venture Exchange and the OTCQX Marketplace

Ticker Symbols: TSX: FLY and OTCQX: FLYLF

Investor Relations

Email: investors@flyht.com

Telephone: 1-403-250-9956

Toll free: 1-866-250-9956

www.flyht.com

Directors

Bill Tempany

John Belcher

Mike Brown

Barry Eccleston

Jacques Kavafian

Doug Marlin

Jack Olcott

Mark Rosenker

Paul Takalo

Chairman, FLYHT Aerospace Solutions Ltd.

Former Chairman and Chief Executive Officer, ARINC Inc.

Partner, Geselbracht Brown

President, Airbus Americas, Inc.

Director

President, Marlin Ventures Ltd.

President, General Aero Company

United States Air Force (retired)

Director

Officers

Thomas R. Schmutz

Alana Forbes

Derek Graham

David Perez

Matieu Plamondon

Chief Executive Officer

Chief Financial Officer

Chief Technical Officer

Vice President Sales and Marketing

Chief Operating Officer

Auditor

KPMG LLP

Calgary, Alberta

Legal Counsel

Chris Croteau

Tingle Merrett LLP, Calgary, Alberta

Head Office

300E, 1144 - 29 Avenue NE

Calgary, Alberta T2E 7P1