
FLYHT
INSIGHT • ACTION • CONTROL
FLYHT AEROSPACE SOLUTIONS LTD.
FINANCIAL STATEMENTS
2018

Independent Auditors' Report

To the Shareholders of FLYHT Aerospace Solutions Ltd.

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

- the consolidated statements of financial position as at December 31, 2018 and December 31, 2017;
- the consolidated statements of comprehensive income (loss) for the years then ended;
- the consolidated statements of changes in equity (deficiency) for the years then ended;
- the consolidated statements of cash flows for the years then ended;
- and notes to the consolidated financial statements, including a summary of significant accounting policies.

Hereinafter referred to as the "financial statements".

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2018 and December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion
We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "*Auditors' Responsibilities for the Audit of the Financial Statements*" section of our auditors' report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Material Uncertainty Related to Going Concern
We draw attention to Note 2 in the financial statements, which indicates that the Company's operating results and cash flows from operations are negative in both 2018 and 2017.
As stated in Note 2 in the financial statements, these events or conditions, along with other matters as set forth in Note 2 in the financial statements, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

Other Information
Management is responsible for the other information. Other information comprises the information included in Management's Discussion and Analysis to be filed with the relevant Canadian Securities Commissions.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.
We obtained the information included in the Management's Discussion and Analysis to be filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

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

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represents the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

"KPMG LLP"

Chartered Professional Accountants
April 10, 2019
Calgary, Canada

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	December 31, 2018	December 31, 2017
	$	$
Assets		
Current Assets		
Cash and cash equivalents (note 6)	2,406,769	2,014,135
Trade and other receivables (note 7)	3,440,767	1,650,574
Contract assets	395,695	313,634
Deposits and prepaid expenses	227,065	391,191
Inventory (note 8)	1,066,946	1,331,893
	7,537,242	5,701,427
Non-current assets		
Property and equipment (note 9)	480,270	398,272
Intangible assets (note 10)	34,992	34,992
Inventory (note 8)	1,044,766	859,448
Total non-current assets	1,560,028	1,292,712
Total assets	**9,097,270**	**6,994,139**
Liabilities		
Current liabilities		
Trade payables and accrued liabilities (note 11)	2,342,754	1,874,005
Customer deposits (note 12)	661,833	1,687,971
Contract liabilities (note 13)	1,524,894	-
Loans and borrowings (note 14)	129,465	112,578
Current tax liabilities (note 26)	272	12,211
Total current liabilities	4,659,218	3,686,765
Non-current liabilities		
Loans and borrowings (note 14)	4,420,714	1,842,439
Provisions (note 16)	43,701	91,713
Total non-current liabilities	4,464,415	1,934,152
Total liabilities	**9,123,633**	**5,620,917**
Equity (deficiency)		
Share capital (note 17)	58,430,455	58,409,225
Convertible debenture – Equity feature	207,273	-
Warrants (note 17)	50,712	911,282
Contributed surplus	10,494,208	9,349,871
Cumulative Translation Adjustment	35,638	(19,254)
Deficit	(69,244,650)	(67,277,902)
Total equity (deficiency)	(26,364)	1,373,222
Total liabilities and equity	**9,097,270**	**6,994,139**

See accompanying notes to condensed consolidated interim financial statements, including the going concern note (note 2d).
Under the transition method chosen for application of IFRS15, comparative information has been restated (note 3).

On behalf of the board

Director – Bill Tempany

Director – Paul Takalo

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

	For the year ended December 31	
	2018 **$**	**2017** **$**
Revenue (note 19)	13,590,516	13,694,888
Cost of sales	5,524,696	4,529,380
Gross profit	8,065,820	9,165,508
Distribution expenses (note 22)	5,993,236	4,951,471
Administration expenses (note 23)	3,251,608	3,159,087
Research, development and certification engineering expenses (note 24)	2,631,445	2,519,274
Income (loss) from operating activities	(3,810,469)	(1,464,324)
Other Income (note 21)	1,861,050	-
Finance income (note 25)	206,599	15,756
Finance costs (note 25)	471,575	379,262
Net finance costs	264,976	363,506
Income (loss) before income tax	(2,214,395)	(1,827,830)
Income tax expense (recovery) (note 26)	(247,647)	8,905
Income (loss) for the period	(1,966,748)	(1,836,735)
Foreign currency translation adjustment	54,892	(5,102)
Comprehensive income (loss) for the period	(1,911,856)	(1,841,837)
Income (loss) per share		
Basic and diluted income (loss) per share (note 18)	(0.09)	(0.09)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (DEFICIENCY)

For the years ended December 31, 2018 and 2017

	Share Capital $	Convertible Debenture $	Warrants $	Contributed Surplus $	Cumulative Translation Adjustment	Deficit $	Total Equity (Deficit) $
Balance at December 31, 2017	58,409,225	-	911,282	9,349,871	(19,254)	(67,277,902)	1,373,222
Income for the period	-	-	-	-	54,892	(1,966,748)	(1,911,856)
Total comprehensive loss for the period	-	-	-	-	54,892	(1,966,748)	(1,911,856)
Contributions by and distributions to owners							
Share-based payment transactions	-	-	-	105,018	-	-	105,018
Warrants issued	-	-	50,712	-	-	-	50,712
Warrants re-priced	-	-	133,267	-	-	-	133,267
Warrants exercised	21,230	-	(5,230)	-	-	-	16,000
Warrants expired	-	-	(1.039,319)	1,039,319	-	-	-
Conversion feature on debenture	-	207,273	-	-	-	-	207,273
Total contributions by and distributions to owners	21,230	207,273	(860,570)	1,144,337	-	-	512,270
Balance at December 31, 2018	58,430,455	207,273	50,712	10,494,208	35,638	(69,244,650)	(26,364)
Balance at January 1, 2017	57,514,646	-	1,139,934	9,017,979	(14,152)	(65,441,167)	2,217,240
Loss for the period	-	-	-	-	(5,102)	(1,836,735)	(1,841,837)
Total comprehensive loss for the period	-	-	-	-	(5,102)	(1,836,735)	(1,841,837)
Contributions by and distributions to owners							
Issue of common shares	-	-	-	459,396		-	459,396
Share issue costs	379,396	-	-	(127,504)		-	251,892
Share-based payment transactions	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	(19,254)	(67,277,902)	1,373,222

CONSOLIDATED STATEMENT OF CASH FLOWS

	For the year ended December 31	
	2018	2017
	$	$
Cash flows from (used in) operating activities		
Income (loss) for the period	(1,966,748)	(1,836,735)
Depreciation – property and equipment	161,489	143,493
Convertible debenture accretion	120,132	-
Grant portion of contributions from WINN	(391,697)	(318,310)
Government loan accretion	321,875	223,795
Equity-settled share-based payment transactions	105,018	459,396
Warrant re-price	133,267	-
Bargain purchase	(658,920)	-
Change in inventories	835,266	204,387
Change in trade and other receivables	(1,690,798)	219,885
Change in contract assets	(82,061)	(199,909)
Change in prepayments	164,126	(174,419)
Change in trade and other payables	469,051	78,207
Change in customer deposits	(1,026,138)	1,370,072
Change in provisions	(32,205)	(436,832)
Provision realized	(15,807)	(20,790)
Unearned revenue	-	(19,866)
Unrealized foreign exchange loss	(110,142)	146,300
Other interest expense	2,719	681
Interest paid	(2,719)	(681)
Interest income	(16,628)	(15,756)
Interest received	16,628	15,756
Income tax expense (recovery)	(247,647)	8,905
Income tax paid	(8,272)	(7,470)
Net cash from (used in) operating activities	(3,920,211)	(159,891)
Cash flows used in investing activities		
Acquisitions of property and equipment (PPE)	(96,224)	(208,416)
Disposal of PPE	-	2,487
Net cash used in investing activities	(96,224)	(205,929)
Cash flows from (used in) financing activities		
Redemption of GIC	-	250,000
Subsidy payment received	2,727,024	-
Less subsidy recognized (note 13)	(1,202,130)	-
Proceeds from debenture	1,865,624	-
Proceeds from exercise of share options and warrants	16,000	538,423
Contributions from WINN	1,056,543	1,080,658
Repayment of borrowings	(119,333)	(103,767)
Payment of finance lease liabilities	-	(15,553)
Net cash from (used in) financing activities	4,343,728	1,749,761
Net increase in cash and cash equivalents	327,293	1,383,941
Cash and cash equivalents, beginning	2,014,135	709,958
Effect of exchange rate fluctuations on cash held	65,341	(79,764)
Cash and cash equivalents, ending	2,406,769	2,014,135

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. FLYHT is publicly traded as FLY in Canada on the TSX.V; and as FLYLF in the USA on the OTCQX. FLYHT is based in Calgary, Canada with an office in Littleton, Colorado and is an AS9100 Quality registered company. For more information visit www.flyht.com.

The consolidated financial statements of the Company as at and for the years ended December 31, 2018 and 2017 consist of the Company and its subsidiaries.

FLYHT's mission is to improve aviation safety, efficiency and profitability. Globally, and for more than 20 years, airlines, leasing companies, fractional owners and original equipment manufacturers have installed FLYHT's differentiated aircraft and enterprise-based solutions to deliver real-time, flight-deck, satellite connectivity for tracking, health monitoring, and streaming of operational, maintenance and weather data.

2. Basis of preparation

(a) Basis of accounting

These consolidated annual financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These consolidated financial statements were approved by the Board of Directors on April 10, 2019.

(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. At December 31, 2018, the Company had positive working capital of $2,878,024 compared to positive $2,014,662 (restated for IFRS 15) as of December 31, 2017, an increase of $863,362. The Company's operating results and cash flows from operations are negative in both 2018 and 2017.

The consistent achievement of positive earnings is necessary before the Company can consistently improve liquidity. The Company has continued to expand its cash flow potential through its continued marketing drive to clients around the world and contracts for delivery of hardware units and related services. Additionally, the acquisition of PWS provides the Company the opportunity to realize efficiencies of scale through increasing both service and hardware revenues.

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 has an undrawn credit facility of $1.5 million, $2.97 million in contributions under WINN loans not yet received and if the need arises due to market opportunities, the Company may meet cash-flow 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) Use of judgements and 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 estimation uncertainties, and assumptions used in preparing our financial statements:

1. Recognition of deferred tax assets: the availability of future taxable profit against which deductible temporary differences and tax losses carried forward can be utilized.

2. Recognition and measurement of provisions and contingences: key assumptions about the likelihood and magnitude of an outflow of resources.

3. Measurement of expected credit loss allowance for trade receivables: the expected credit loss is determined by assessing potential credit impairment at each reporting date.

4. The Company assesses raw materials and finished goods inventory for potential obsolescence or impairment. This provision is determined based on regular reviews of slow-moving inventory.

5. The fair value of WINN contributions: a discount rate is used to determine the portion of the contribution to be categorized as a repayable loan at below market interest rates. The discount rate was determined based on debt market conditions as well as factors specific to the Company's operations and financial position.

6. Asset acquisition for which no consideration was paid: measured at the fair value of the consideration transferred and fair value of assets acquired and liabilities assumed.

7. Valuation of convertible debt instruments: a discount rate is used to determine the fair value of the loan, and is a method of allocating the equity portion between the different equity classes.

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) Business combinations

The Company accounts for business combinations using the acquisition method when control is transferred. 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 expenses 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.

(ii) 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

Effective January 1, 2018 the Company adopted IFRS 9 – Financial Instruments which replaced 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.

(i) Recognition and measurement

The Company initially recognizes trade receivables and trade payables, loans and borrowings and finance lease liabilities on the date they are originated. All other financial instruments are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

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.

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.

(ii) Derecognition

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

The Company derecognizes a financial liability when its contractual obligations are discharged, canceled or expires. On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid is recognized in profit or loss.

(iii) Offsetting

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

(iv) Share capital

Common shares are classified as equity if settlement results in the company delivering a fixed number of its own shares in exchange for a fixed number of other cash or financial assets. If settlement results in the Company delivering a fixed number of its own shares in exchange for a fixed number of other cash or financial assets. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

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

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

(v) Compound financial instruments

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

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

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

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

(c) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories includes expenditures incurred in acquiring the inventories, production or conversion costs, and other costs incurred in bringing them to their existing location and condition. The amount of inventory that is expected to be recovered more than 12 months after the reporting date is presented as a non-current asset.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Any write-down to net realizable value is recognized as an expense. Reversals of previous write-downs are recognized in profit or loss in the period when the reversal occurs.

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

Finished goods consists of 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 units.

(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 over 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

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 AFIRS, FlightLink and TAMDAR systems and the design and testing of all software systems and products (including AirMap, 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.

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

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.

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

(i) Warranties

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

(k) Impairment

(i) Non-derivative financial assets

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

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

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

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

(ii) Non-financial assets

At each reporting date, the Company reviews the carrying amounts of its non-financial assets (other than inventories and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the assets recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present values using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognized if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in profit and loss.

(l) Revenue

Effective January 1, 2018 the Company adopted IFRS 15, which implemented a single model that applies to contracts with customers 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 retrospective method was used to ensure comparability, which required restatement of comparative periods. No restatement was made for contracts completed by January 1, 2017. Opening 2017 retained earnings was adjusted for the cumulative effect of adjustments prior to that date.

The following describes the accounting policies for each revenue stream, including the timing of each performance obligation and any significant payment terms.

(i) SaaS
Revenue from sales of Software as a Service is recognized over time as these services are provided. Invoices based on usage are generated monthly and typically are payable within 30 days.

(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. Under IAS 18, revenue was deferred until the risks and rewards had been transferred to the buyer. For contracts under which customer acceptance was determined based on installation of the system, revenue and associated cost of goods sold is recognized sooner under IFRS 15 than IAS 18.

(iii) Licensing
Control over modems and associated IP licenses is transferred upon shipment, at which point the revenue is recognized. Payment is typically due net 30 post shipment.

(iv) Technical Services
Revenue from Technical Services is recognized over time, as the services are provided or as the associated asset is developed. Payment terms for these services typically follow terms established for Hardware.

The effect of initially applying this standard is mainly earlier recognition of revenue from Hardware sales. IFRS 15 did not have a significant impact on revenue from SaaS, Licensing, nor Technical Services. Under IFRS 15, revenue is recognized when a customer obtains control of the goods or services. Determination of the timing of this transfer often requires judgement. Management assesses each contract for appropriate allocation of transaction price among performance obligations, including an expected margin analysis and evaluation of consistently applied pricing methods.

The following tables summarize the impact of the Company's transition to IFRS 15.
Comprehensive statement of income, affected categories:

	For the year ended December 31, 2017 $		
	Previously reported	IFRS 15 adjustments	Amounts adjusted for IFRS 15
Revenue	14,018,750	(323,862)	13,694,888
Cost of sales	4,772,680	(243,300)	4,529,380
Gross profit	**9,246,070**	**(80,562)**	**9,165,508**

Comprehensive statement of financial position, affected categories:

	December 31, 2017 $			January 1, 2017 $		
	Previously reported	IFRS 15 adjustments	Amounts adjusted for IFRS 15	Previously reported	IFRS 15 adjustments	Amounts adjusted for IFRS 15
Trade and other receivables	1,887,251	(236,677)	1,650,574	2,105,385	(113,725)	1,991,660
Contract assets	-	313,634	313,634	-	113,725	113,725
Current inventory	1,563,558	(231,665)	1,331,893	1,556,794	(467,488)	1,089,306
Unearned revenue	(413,809)	413,809	-	(827,235)	807,369	(19,866)
Deficit	(67,550,815)	259,101	(67,291,714)	(65,795,200)	339,881	(65,455,319)

(m) Employee benefits

(i) Short-term employee benefits

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

(ii) Share-based payment transactions

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

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

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

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

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

(i) Stock options granted to consultants

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

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

(ii) Agent warrants

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

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

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

(o) Finance income and finance costs

Finance income comprises interest income and the foreign currency gain on financial assets and financial liabilities which is recognized in profit or loss as it accrues using the effective interest method.

Finance costs comprise interest expense and accretion on borrowings, unwinding of the discount on provisions, and the foreign currency loss on financial assets and financial liabilities, and are recognized in profit or loss using the effective interest method whereby the amount of the discount is amortized to interest expense over the expected life of the instrument.

(p) Foreign currency

(i) Foreign currency transactions

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

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

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

(ii) Foreign operations

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

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

(q) Income tax

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

(i) Current tax

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

(i) Deferred tax

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

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

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

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

(r) Earnings per share

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

4. New standards and interpretations not yet adopted

In January 2016, the International Accounting Standards Board issued the final version of IFRS 16, Leases. IFRS 16 will replace the existing leases Standard, IAS 17 Leases, and related Interpretations. The Standard sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e., the lessee and the lessor). IFRS 16 introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Currently, operating lease expenses are charged to the statement of comprehensive income (loss). The Standard also contains enhanced disclosure requirements for lessees. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17.

The effective date for adoption of IFRS 16 is annual periods beginning on or after January 1, 2019, and the Company will adopt IFRS 16 for the annual period beginning on January 1, 2019. The transition to IFRS 16 consists of three key phases: identifying and analyzing all contracts that could contain a lease, analyzing impact of transition, and implementing any required changes to policies and internal controls. The Company has completed its identification of all outstanding leases as at December 31, 2018 and is currently in the process of completing its calculations and analysis to finalize transition results for Q1 2019. As of January 1, 2019 the Company will recognize right-of-use assets and lease liabilities in the statements of financial position. The Company will transition to IFRS 16 in accordance with the modified retrospective approach. Impacts of IFRS 16 prior to January 1, 2019 are not adjusted. As part of the initial application of IFRS 16, the Company chose to apply the following transition options and exemptions:

Critical judgements and estimates will be applied in the transition to IFRS 16, such as assessing whether an arrangement contained a lease, determining the lease term, and calculating discount rates on a lease-by-lease basis. These aforementioned estimates have a significant risk of material adjustment within the next financial year.

5. 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. 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, 2018	**December 31, 2017**
	$	**$**
Trade receivables	3,274,135	1,463,187
Non-trade receivables and accrued receivables	166,632	187,387
Total	**3,440,767**	**1,650,574**

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

8. Inventory

	December 31, 2018 $	December 31, 2017 $
Raw materials	1,416,670	1,336,892
Finished goods	695,042	854,449
Balance	**2,111,712**	**2,191,341**
Less current portion	(1,066,946)	(1,331,893)
Non-current portion	1,044,766	859,448

In 2018 Raw materials and Finished goods recognized as cost of sales amounted to $5,524,696 (2017: $4,529,380 restated for IFRS 15). Included in this amount was a write down of inventories amounting to $157,852 (2017: $93,498) resulting from a review of slow moving inventory parts. All inventories are pledged as security for the bank loan and the convertible debenture (note 14).

9. Property and equipment

2018	Computers and Software $	Equipment $	Leasehold Improvements $	Total $
Cost				
Balance at January 1	825,224	345,159	49,110	1,219,493
Additions	94,916	1,308	-	96,224
Acquisition through business combinations	96,770	35,569	14,924	147,263
Balance at December 31	1,016,910	382,036	64,034	1,462,980
Accumulated Depreciation				
Balance at January 1	579,613	216,633	24,975	821,221
Depreciation for the year	123,206	30,446	7,837	161,489
Balance at December 31	702,819	247,079	32,812	982,710
Carrying Amounts				
At January 1	245,611	128,526	24,135	398,272
At December 31	**314,091**	**134,957**	**31,222**	**480,270**

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	825,224	345,159	49,110	1,219,493
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	579,613	216,633	24,975	821,221
Carrying Amounts				
At January 1	241,138	64,917	29,781	335,836
At December 31	**245,611**	**128,526**	**24,135**	**398,272**

As of December 31, 2018, all property and equipment are pledged as security for the bank loan and the convertible debenture (note 14).

10. Intangible assets

The IP Licenses are 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 forsees no end to that relationship.

Intangible assets are pledged as security for the bank loan and the convertible debenture (note 14).

11. Trade payables and accrued liabilities

	December 31, 2018 $	December 31, 2017 $
Trade payables	1,737,710	1,345,952
Compensation and statutory deductions	346,456	348,410
Accrued liabilities	258,588	179,643
Balance, December 31	**2,342,754**	**1,874,005**

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

12. Customer deposits

	December 31, 2018 $	December 31, 2017 $
Opening balance	1,687,971	317,899
Payments received	4,820,111	5,543,241
Recognized as revenue	(5,846,249)	(4,173,169)
Balance, December 31	**661,833**	**1,687,971**

13. Contract liabilities

	December 31, 2018 $	December 31, 2017 $
Opening balance	-	-
Payments received	2,621,106	-
Recognized in Other Income	(1,202,130)	-
Less subsidy receivable	106,008	-
Balance, December 31	**1,524,984**	**-**

In October 2018 FLYHT acquired the assets of PWS. Pursuant to a transition agreement between the parties, to keep the asset acquisition cash-flow neutral to FLYHT during an 18-month transition period, FLYHT is expected to receive a subsidy of $3.3 million USD. This subsidy can be increased or reduced if FLYHT’s income relating to the acquired assets falls short or exceeds certain agreed upon thresholds. The subsidy is being paid over the term of the transition period, and the portion of the amounts received that relate to future periods are held in Contract Liabilities until they are recognized in Other Income on the Statement of Comprehensive Income.

14. Loans and borrowings

	2018 Face value $	2018 Carrying value $	2017 Face value $	2017 Carrying value $
Secured bank loan	-	-	-	-
SADI loan	1,507,481	1,252,743	1,626,814	1,162,679
WINN loan	2,137,202	1,569,663	1,080,658	792,338
Convertible debenture	2,480,000	1,727,773	-	-
Balance, December 31	**6,124,683**	**4,550,179**	**2,707,472**	**1,955,017**
Less current portion	137,233	129,465	119,333	112,578
Non-current portion	**5,987,450**	**4,420,714**	**2,588,139**	**1,842,439**

Bank loan

On July 7, 2017, the Company amended its operating demand loan with a Canadian chartered bank to increase its borrowing availability up to a maximum of CAD $1.5 million or 90% of the Company's receivable balances, from $250,000 and also resulted in the release of the GIC of $250,000 previously pledged as security. Any amount drawn on the Line of Credit bears 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.

On February 26, 2019, the Company amended its operating demand loan to allow the Company to draw funds either in CAD or USD. USD funds drawn will bear interest at Canadian chartered bank US prime plus 4.5%. The aggregate of these two facilities is not to exceed CAD $1.5 million. The other terms of the agreement remain the same.

Government loans

In November 2016, the Company signed a contribution agreement with Western Economic Diversification Canada for a Western Innovation initiative (WINN) loan, to support plans for technology development in the air and ground components of the Company's products. Under the terms of the agreement, a repayable unsecured WINN contribution to the value of the lesser of 50% of the eligible project costs to March 31, 2019 or $2,350,000 will be received. The amount is repayable over five years commencing January 1, 2020. At December 31, 2018, the Company had received contributions totaling $2,137,202 (2017: 1,080,658).

In November 2018, the Company signed a second contribution agreement with Western Economic Diversification Canada for a Western Innovation initiative (WINN) loan, to support development of the next generation of AFIRS hardware and embedded software to address parts obsolescence issues and add new market-driven features. Under the terms of the agreement, a repayable unsecured WINN contribution to the value of the lesser of 44% of the eligible project costs to April 30, 2021 or $2,761,000 will be received. A March 31, 2019 amendment adjusted the end date for eligible project costs to September 30, 2021. The amount is repayable over five years commencing October 1, 2021. At December 31, 2018, the Company had not received contributions under this loan.

Under SADI, the Company has, at December 31, 2018, an outstanding repayable balance of $1,507,481 (2017: $1,626,814). 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, 2018 and 2017 and changes during these years is presented below.

	2018 SADI $	**2018 WINN $**	**2018 Total**	**2017 SADI $**	**2017 WINN $**	**2017 Total**
Balance January 1	1,162,679	792,338	1,955,017	1,072,641	-	1,072,641
Contributions received	-	1,056,544	1,056,544	-	1,080,658	1,080,658
Grant portion	-	(391,697)	(391,697)	-	(318,310)	(318,310)
Interest accretion	209,397	112,478	321,875	193,805	29,990	223,795
Repayment	(119,333)	-	(119,333)	(103,767)	-	(103,767)
Balance December 31	**1,252,743**	**1,569,663**	**2,822,406**	**1,162,679**	**792,338**	**1,955,017**
Less current portion	129,465	-	129,465	112,578	-	112,578
Non-current portion	1,123,278	1,569,663	2,692,941	1,050,101	792,338	1,842,439

Convertible Debenture

The Company issued the Debentures on July 24, 2018. They will mature on July 24, 2021 (if not otherwise converted) and bear interest at a rate of 8% per annum, which shall be accrued and paid annually in arrears. The Debentures shall be convertible at the option of the debenture holder into common shares of FLYHT (Common Shares) at a conversion rate of $1.30 per share at any time prior to maturity, subject to a forced conversion (at a conversion rate of $1.30 per share) into Common Shares should the closing price of the Company's Common Shares be equal to or exceed $1.80 for 20 consecutive trading days.

769,200 warrants (Warrants) were issued to the purchasers of the Debentures. Each whole Warrant is exercisable to acquire one Common Share of FLYHT for a period of two (2) years from the date of issuance at an exercise price of $1.45 per share. The Warrants are subject to an acceleration clause, whereby, if after four months and one day following the date the Warrants are issued, the closing price of the Company's Common Shares is equal to or exceeds $1.90 for 20 consecutive trading days, the Warrant expiry date shall accelerate to the date which is 30 calendar days following the date a press release is issued by the Company announcing the reduced warrant term.

The Debentures are secured against all personal property of the Company and are subordinated in right of payment to all existing and future secured bank and/or governmental indebtedness of the Company and any existing security already registered against FLYHT's assets.

	2018 $
Proceeds on issue	1,950,000
Transaction costs allocated	(84,376)
Net Proceeds	1,865,624
Amount classified as equity (net of transactions costs)	(257,984)
Accrued interest	120,133
Carrying amount of liability at December 31, 2018	**1,727,773**

15. Operating leases

Operating lease rentals are payable as follows:

	Premises $
2019	738,749
2020	836,908
2021	459,523
2022	96,114
Total	**2,131,294**

Operating lease payments made in 2018 totaled $529,245 (2017: $458,145).

16. Provisions

Product warranty	2018 $	2017 $
Balance January 1	91,713	549,335
Provision made during the period	12,050	15,496
Provision extinguished	(39,736)	-
Provision re-evaluation	2,314	(452,328)
Provision used during the period	(22,640)	(20,790)
Balance December 31	**43,701**	**91,713**

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 for a warranty claim from a partner that was withdrawn in 2018.

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, 2017	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
Exercise of warrants	10,000	21,230
Balance December 31, 2018	**21,068,617**	**58,430,455**

In 2018 warrant exercises resulted in the Company issuing a total of 10,000 shares for total proceeds of $16,000. No options were exercised in the year.

Stock option plan

The Company grants stock options to its directors, officers, employees and consultants. The following stock options were granted in 2018:

- 7,500 stock options with an exercise price of $1.17 to an employee. The options will vest in equal tranches on August 8, 2019, 2020 and 2021 and will expire on August 8, 2022.
- 421,015 stock options to employees, officers and directors under the stock option plan with an exercise price of $1.55. The options will vest in equal tranches on May 4, 2019, 2020 and 2021 and will expire on May 4, 2022.
- 30,000 stock options to a consultant with an exercise price of $1.33. The options will vest in equal tranches on September 30, 2018, December 31, 2018, March 31, 2019 and June 30, 2019. These options are set to expire on May 15, 2021.
- 10,000 stock options with an exercise price of $1.33 to an employee. The options will vest 1/3 each on November 7, 2019, 2020 and 2021 and will expire on December 31, 2022.

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, 2018, there were 2,106,862 (2017: 2,105,862) common shares reserved for this purpose.

A summary of the Company's outstanding stock options as at December 31, 2018 and 2017 and changes during these years is presented below.

	2018		2017	
	Number of options	Weighted average exercise price $	Number of options	Weighted average exercise price $
Outstanding, January 1	983,498	2.16	863,337	2.60
Options granted	468,515	1.39	486,021	2.21
Options exercised	-	-	(123,430)	2.04
Options expired	(386,168)	2.01	(242,430)	3.90
Outstanding December 31	**1,065,845**	**1.86**	**983,498**	**2.17**
Unvested options	404,435	1.53	95,000	2.10
Outstanding and exercisable, December 31	**661,410**	**2.07**	**888,498**	**2.16**

The exercise prices for options outstanding at December 31, 2018 were as follows:

	All options		Exercisable options	
Exercise price:	**Number**	**Weighted average remaining contractual life (years)**	**Number**	**Weighted average remaining contractual life (years)**
$1.17	7,500	3.6	-	-
$1.33	30,000	2.4	15,000	2.4
$1.33	10,000	4.0	-	-
$1.55	371,935	3.3	-	-
$1.90	285,365	1.0	285,365	1.0
$2.10	20,000	3.0	20,000	3.0
$2.20	316,045	2.0	316,045	2.0
$2.55	5,000	2.0	5,000	2.0
$2.75	20,000	1.0	20,000	1.0
Total	**1,065,845**	**2.2**	**661,410**	**1.6**

The weighted average fair value of the options granted during the year that were valued using the Black-Scholes option pricing model was $0.45 (2017: $1.10). The fair value of the options granted and valued using the Black-Scholes option pricing model were valued with the following weighted average assumptions:

	2018	**2017**
Risk-free interest rate	1.91%	1.05%
Expected life (years)	2.02	3.52
Volatility in the price of the Company's common shares	52%	70%
Dividend yield rate	0.00%	0.00%

Warrants

	Number of warrants	**Weighted average exercise price $**	**Value $**
Outstanding January 1, 2017	1,907,021	2.39	1,139,934
Warrants exercised	(191,021)	1.50	(228,652)
Outstanding December 31, 2017	**1,716,000**	**2.30**	**911,282**
Warrants issued (note 14)	769,200	1.45	50,712
Warrants exercised	(10,000)	1.60	(5,230)
Warrants expired	(1,706,000)	1.60	(906,052)
Outstanding December 31, 2018	**769,200**	**1.45**	**50,712**

18. Earnings per share

Basic earnings per share

The calculation of basic and diluted earnings per share for the year ended December 31, 2018 was based on a weighted average number of common shares outstanding of 21,058,736 (basic and diluted) (2017: 20,926,589 basic and diluted).

19. Disaggregation of revenue

The Company has one operating segment. The following revenue is based on the geographical location of customers. All non-current assets (property and equipment and intangible assets) reside in Canada, with the exception of property and equipment valued at $145,725, located at FLYHT's offices in Littleton, CO.

	For the year ended December 31	
	2018 $	2017* $
North America	5,935,692	7,476,508
South/Central America	660,007	396,591
Africa	588,473	774,402
Middle East	1,794,439	976,490
Europe	770,574	348,037
Australasia	646,989	632,299
Asia	3,194,342	3,090,561
Total	**13,590,516**	**13,694,888**

* Under the transition method chosen for application of IFRS15, comparative information has been restated (note 3).

The following shows revenue per major product and service categories.

	For the year ended December 31	
	2018 $	2017* $
SaaS	5,528,822	4,312,702
Hardware	5,536,687	5,444,844
Licensing	2,265,262	3,752,301
Technical Services	259,745	185,041
Total	**13,590,516**	**13,694,888**

* Under the transition method chosen for application of IFRS15, comparative information has been restated (note 3).

In the categories listed in the revenue sources chart, Software as a Service (**SaaS)** is the recurring revenue from the Company's product that allows customers to utilize and analyze data they receive from units, use of functions such as the satellite phone and the sale of weather data collected by units. These usage fees are recognized as the service is provided based on actual customer usage each month. **Hardware** includes the income from hardware sales and related parts required to install the unit, spare units, spare installation parts, and Underfloor Stowage Units. **Licensing** includes sales of modems with a related manufacturing license fee. **Technical Services** includes all services offered by the Company, including repairs and other expertise.

Major customers

Revenues from the three largest customers represent approximately 32% of the Company's total revenues for the year ended December 31, 2018 (2017: 38%).

21. Other Income

	For the year ended December 31 2018 $
Bargain Purchase (note 30)	658,920
Subsidy recovery (note 13)	1,202,130
Total	**$1,861,050**

22. Distribution expenses

	For the year ended December 31 2018 $	2017 $
Salaries and benefits	3,592,664	2,361,046
Stock based compensation	40,068	152,272
Contract labour	725,677	881,837
Office	402,191	429,294
Travel	647,515	601,172
Equipment & maintenance	190,470	53,712
Depreciation	37,641	34,438
Marketing	165,615	268,033
Other	191,395	169,667
Total	**5,993,236**	**4,951,471**

23. Administration expenses

	For the year ended December 31 2018 $	2017 $
Salaries and benefits	1,457,388	1,326,548
Stock based compensation	190,209	281,675
Contract labour	289,983	431,423
Office	376,094	306,034
Legal fees	195,143	76,446
Audit and accounting	197,852	192,452
Investor relations	114,866	158,931
Brokerage, stock exchange, transfer agent fees	34,205	40,350
Travel	120,297	102,348
Equipment and maintenance	166,179	131,340
Depreciation	80,381	59,334
Other	29,011	52,206
Total	**3,251,608**	**3,159,087**

24. Research, development and certification engineering expenses

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

	For the year ended December 31 2018 $	2017 $
Salaries and benefits	2,443,060	2,093,261
Stock based compensation	8,008	25,448
Contract labour	225,529	276,669
Office	79,263	127,221
Travel	75,196	90,911
Equipment and maintenance	69,733	125,357
Components	77,399	165,510
SRED tax credit	-	(116,514)
Depreciation	43,437	49,721
Government grants	(391,697)	(318,310)
Other	1,517	-
Total	**2,631,445**	**2,519,274**

25. Finance income and finance costs

	For the year ended December 31	
	2018	2017
	$	$
Interest income on bank deposits	16,628	15,756
Net foreign exchange gain	189,971	-
Finance income	**206,599**	**15,756**
Bank service charges	26,849	38,807
Net foreign exchange loss	-	115,979
Other interest expense	2,719	681
Government grant interest accretion	321,875	223,795
Debenture interest expense and accretion	120,132	-
Finance costs	**471,575**	**379,262**

26. Income tax expense

Current Tax Expense

	2018	2017
	$	$
Current income tax (recovery) expense	(3,667)	8,905
Deferred income tax (recovery) expense	(243,980)	-
	(247,647)	**8,905**

Deferred Tax Expense

Unrecognized deferred tax assets

Deferred tax assets have not been recognized in respect to the following items:	2018	2017
	$	$
Capital assets	244,717	202,845
Intangibles	71,257	71,257
Inventory	-	2,157
Non-capital loss carry-forwards	9,948,952	9,609,044
Share issue costs	37,269	55,903
Scientific research and experimental development expenditures	8,464,230	8,345,900
	18,766,425	**18,287,106**

The Company has non-capital losses for income tax purposes of approximately $37,239,348 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	1,725,517
2038	1,617,573
Total	**37,239,348**

Reconciliation of effective tax rate

	2018	2017*
	$	$
Income (loss) before tax	(2,214,395)	(1,746,710)
Tax Rate	27%	27%
Expected income tax recovery	(597,887)	(471,612)
Bargain purchase tax impact	(177,908)	-
True up from prior year	(145,669)	(42,456)
Non-deductible expenses	16,077	13,361
Stock based compensation	64,337	124,036
Change in unrecognized temporary differences	593,403	385,582
	(247,647)	**8,905**

* Comparative tax information has not been restated under IFRS 15 (note 3).

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 16% (2017: 27%) of the Company's 2018 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 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, 2018	0-30 days	31-60 days	61-90 days	91+ days	Total
	$	$	$	$	$
Accounts receivable	2,776,145	565,523	103,264	291,978	3,736,910
Impairment	(4,802)	(5,799)	(2,199)	(283,343)	(296,143)
Net receivable	**2,771,343**	**559,724**	**101,065**	**8,635**	**3,440,767**

December 31, 2017	0-30 days	31-60 days	61-90 days	91+ days	Total
	$	$	$	$	$
Accounts receivable	1,060,527	195,228	40,177	510,891	1,806,823
Impairment	(2,012)	-	(3,522)	(150,715)	(156,249)
Net receivable	**1,058,515**	**195,228**	**36,655**	**360,176**	**1,650,574**

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, 2018 and 2017 was:

	2018 $	2017 $
Balance, January 1	156,249	582,712
Provision	139,894	160,484
Amounts written off	-	(586,947)
Balance, December 31	**296,143**	**156,249**

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, 2018	**< 2 months $**	**2-12 months $**	**1-2 years $**	**2-5 years $**	**> 5 years $**	**Total $**
Accounts payable	1,737,710	-	-	-	-	1,737,710
Compensation and statutory deductions	3,112	343,343	-	-	-	346,455
Accrued liabilities	1,942	240,130	11,658	4,858	-	258,588
Loans and borrowings	-	297,234	629,820	4,194,230	1,003,399	6,124,683
Total	**1,742,764**	**880,707**	**641,478**	**4,199,088**	**1,003,399**	**8,467,436**

December 31, 2017	**< 2 months $**	**2-12 months $**	**1-2 years $**	**2-5 years $**	**> 5 years $**	**Total $**
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**

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 $147,252 (2017: $138,744) and a strengthening of the Canadian dollar would decrease net earnings by approximately $147,252 (2017: $138,744).

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, 2018, working capital denominated in U.S. dollars was approximately positive $2,474,528 (2017: positive $878,991). As a result, a 1% weakening of the Canadian dollar would increase net earnings by approximately $24,745 (2017: $8,790) and a strengthening of the Canadian dollar would decrease net earnings by approximately $24,745 (2017: $8,790).

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, 2018 and 2017 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 (note 14). The fair values of financial assets and all other liabilities approximate carrying values due to the short-term nature of the instruments.

Capital management

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

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. This company also provided certain financial services in Q2 2018. 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 year ended December 31	
	2018	**2017**
Amounts included in:	**$**	**$**
Contract labour	12,900	83,200

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:

	2018	**2017**
	$	**$**
Salary	1,158,088	1,018,521
Director fees	207,505	203,551
Variable compensation	295,000	132,500
Retiring allowance	-	112,500
Share-based payments	54,385	350,095
Short-term employee benefits	58,866	59,956
Total	**1,773,844**	**1,877,123**

Directors of the Company control 3.9% (2017: 3.9%) of the voting shares of the Company.

Subsidiaries

	Country of Incorporation	Ownership interest
FLYHT Inc.	United States	100%
AeroMechanical Services USA Inc.	United States	100%
FLYHT Corp.	Canada	100%
FLYHT India Corp.	Canada	100%
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. Business combination – asset acquisition

On October 9, 2018, the Company acquired the assets of Panasonic Weather Solutions, a division of Panasonic Avionics Corporation. The assets acquired included 10 airline service contracts, a weather observation contract; the technology and intellectual property for the FlightLink Iridium Satellite Data Unit and TAMDAR sensor; AirMap operating software, and several STC's for these technologies. There were no liabilities assumed.

Pursuant to a transition agreement between the parties which ends March 31, 2020, the Company and PAC will work closely together to complete several ongoing deployment programs, while PAC will also provide warranty services and a level of customer support. This transition period will give FLYHT time to integrate business and operational functions. In addition, to keep the asset acquisition cash-flow neutral to FLYHT during this period, the Company will receive a subsidy of US$3.3 million. The total subsidy can be increased or reduced if the income relating to the acquired contracts falls short of or exceeds certain agreed upon thresholds. Pursuant to the terms of the acquisition of PWS assets and the transition agreement, FLYHT payed no monetary consideration to PAC for the PWS assets, accordingly no fair value was assessed for the intangible assets, per IFRS 3 (Business Combinations). The Company incurred acquisition-related costs of $170,403 in due diligence and legal fees. These costs have been included in Administrative Expenses (note 23).

The fair values of the identifiable assets as at the date of acquisition were:

	Fair value recognized on acquisition
Property and equipment	147,263
Inventory	755,637
Deferred tax liability	(243,980)
Bargain purchase arising on acquisition	(658,920)
Purchase consideration	-

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

Assets acquired	Valuation technique
Property and equipment	Fair value assessment considered market prices for similar items when they were available, and depreciated replacement cost when appropriate.
Inventory	Inventory acquired was assessed for impairment, and valued at cost or at a reduced value when appropriate.

It is impracticable to report net income on a segregated basis. Integration of the assets started immediately after acquisition, and as a result costs can no longer be separated.

CORPORATE INFORMATION

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Share Listing

Shares are traded on the TSX Venture Exchange and the OTCQX Marketplace
Ticker Symbols: TSX: FLY and OTCQX: FLYLF

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Mike Brown	Partner, Geselbracht Brown
Barry Eccleston	President, Airbus Americas, Inc. (retired)
Jacques Kavafian	Director
Doug Marlin	President, Marlin Ventures Ltd.
Jack Olcott	President, General Aero Company
Mark Rosenker	United States Air Force (retired)
Paul Takalo	Director
Nina Jonsson	Director

Officers

Thomas R. Schmutz	Chief Executive Officer
Alana Forbes	Chief Financial Officer
Matieu Plamondon	Chief Operating Officer
Derek Graham	Chief Technical Officer
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