FLYHT AEROSPACE SOLUTIONS LTD.

ANNUAL REPORT 2015



FLYHT™

The Future of Connectivity

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"THE 2015 FINANCIAL YEAR WAS A PERIOD FULL OF ACCOMPLISHMENT FOR FLYHT"

Commonly Used Financial Terms & Aviation Acronyms



ACARS: Aircraft Communications Addressing and Reporting System

ADCC: Aircraft Data Communication Corporation

AFIRS™: Automated Flight Information Reporting System

ANAC: National Civil Aviation Agency of Brazil

BEA: Bureau d'Enquetes et d'Analyses (French authority for safety investigations in civil aviation)

CAAC: Civil Aviation Administration of China

COMAC: Commercial Aircraft Corporation of China

DGAC: Direccion General de Aeronautica Civil (Mexico's certification organization)

EASA: European Aviation Safety Agency

ECAA: Egyptian Civil Aviation Authority

FAA: Federal Aviation Administration

FIRST: Fuel Initiative Reporting System Tracker

GAMA: General Aviation Manufacturers Association

GAAP: Generally Accepted Accounting Principles

IATA: International Air Transport Association

ICAO: International Civil Aviation Organization

ICE: Iridium Compatible Equipment

IFRS: International Financial Reporting Standards

ITU: International Telecommunications Union

MD&A: Management Discussion and Analysis

NCAA: Nigerian Civil Aviation Authority

NTSB: National Transportation Safety Board

OEM: Original Equipment Manufacturer

QTD: Quarter-to-date

R&D: Research and Development

SADI: Strategic Aerospace and Defence Initiative

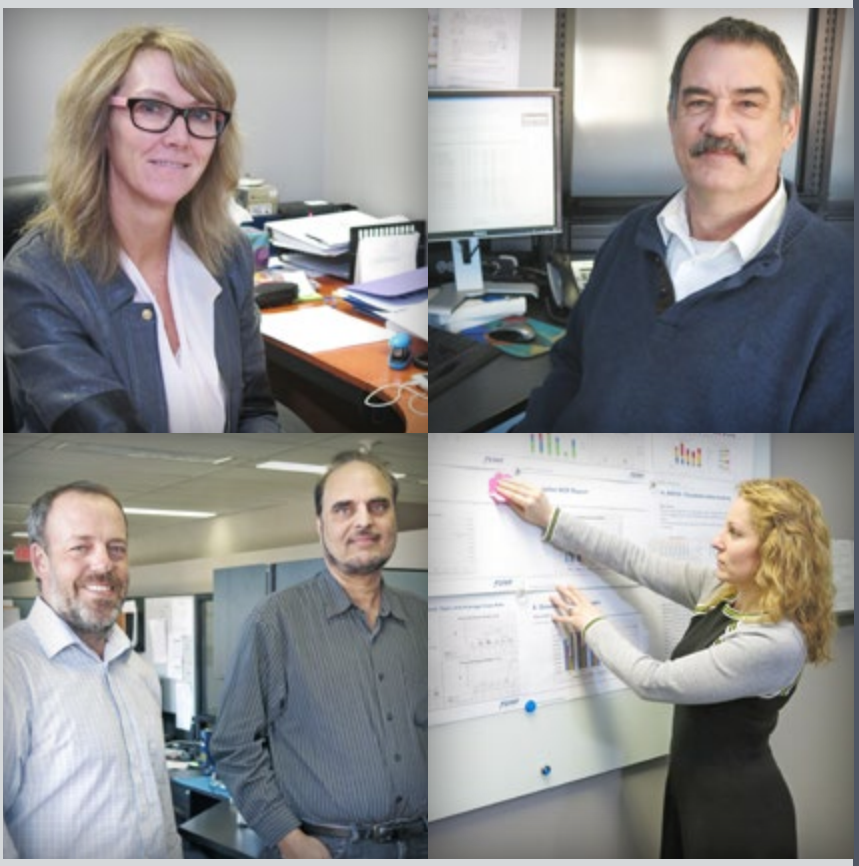
SFP: Statement of Financial Position

STC: Supplemental Type Certificate

TCCA: Transport Canada Civil Aviation

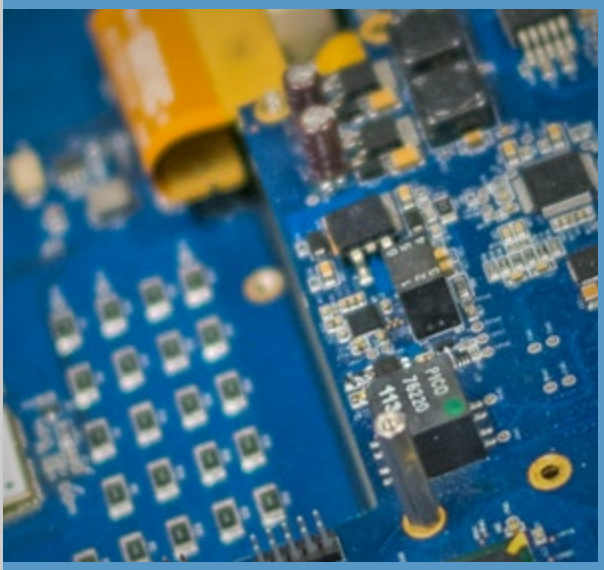
YTD: Year-to-date

Investment Highlights



- Multiple revenue streams: initial hardware sale and installation and recurring revenue
- Robust recurring revenue gross margins of 75-85%
- Five-year customer contracts renew at expiry
- Greater than 2.1 million flight hours using AFIRS; and have shipped and/or installed over 800 units worldwide
- Certified on 95% of all aircraft used for commercial air transport; significant barrier to entry
- OEM agreements in place with two global OEMs
- Only solution that can provide real-time aircraft data monitoring and black box streaming

2015 FLYHT Plan Review & Achievements



- **Increase sales force and focus on major markets**

  FLYHT recruited David Perez as the VP, Sales and Marketing and appointed additional agents.

- **Capture a major carrier**

  Succeeded in signing a contract for 146 aircraft with Canadian-based leasing and airline company Avmax Aviation Services Inc. ("Avmax").

- **In China: continued vigilance in order to meet mandate for SatCom in 2017; add an AFIRS repair depot**

  Saw an escalating increase in AFIRS orders from China in anticipation of the 2017 deadline.

  While we did not open an AFIRS repair depot in 2015, we plan to partner with a company to serve as our service centre commencing in 2016. The Company will have equipment and spare parts to test or repair AFIRS units and provide customers with the re-certification required to install on their aircraft.

- **Respond to commercial OEM requests for alerting and streaming technology**

  FLYHT responded to several RFPs from OEMs although at the time of the printing of this report we have not been advised of the award of these proposals.

- **Continue to participate with industry groups to make changes in regulations for aircraft alerting and streaming**

  FLYHT participated in the ICAO meetings regarding regulations on aircraft tracking at the beginning of 2015. On March 8, 2016 ICAO released information announcing that between now and 2021 there will be new tracking requirements primarily related to:

  - The requirement for aircraft to carry autonomous distress tracking devices which can autonomously transmit location information at least once every minute in distress circumstances.

- The requirement for aircraft to be equipped with a means to have flight recorder data recovered and made available in a timely manner.
- Extending the duration of cockpit voice recordings to 25 hours so that they cover all phases of flight for all types of operations.

FLYHT's technology already complies with the first point for one-minute tracking (transmits as frequently as every 20 seconds) and can send the black box data to the airline in real time so that the FDR data is available in a timely manner, hence complies with item two for our customers. The third point refers to flight voice recorders, which are not part of our functionality.

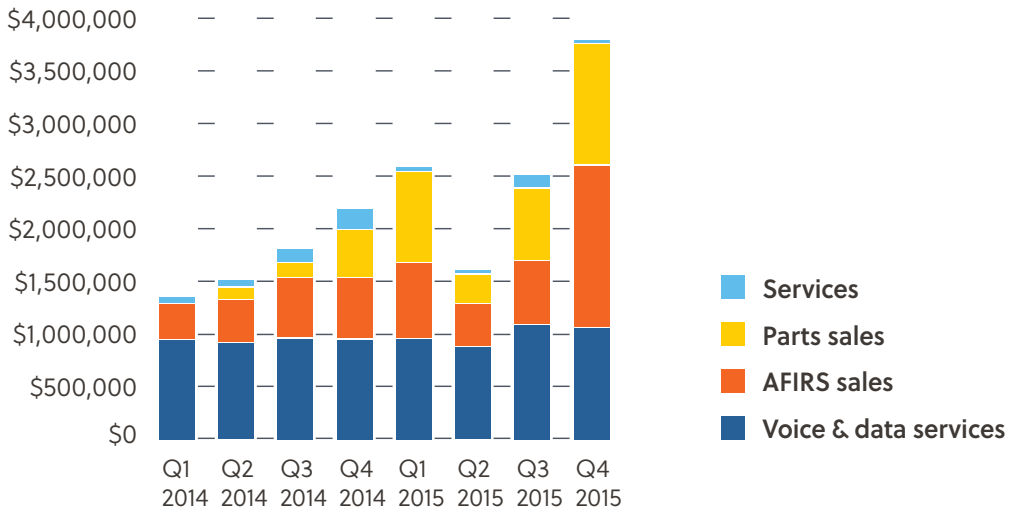
- **Development: expand application to mobility platforms, lay groundwork for high bandwidth solutions, introduce data on demand**

  In Q2 2015 FLYHT suspended its work on mobility platforms and shifted the focus to develop an improved user interface to the UpTime™ platform, updated its Aircraft Situational Display and continued to build value-added applications that improve airlines' real-time aircraft intelligence. These applications and the UpTime expansion are scheduled for completion in 2016.

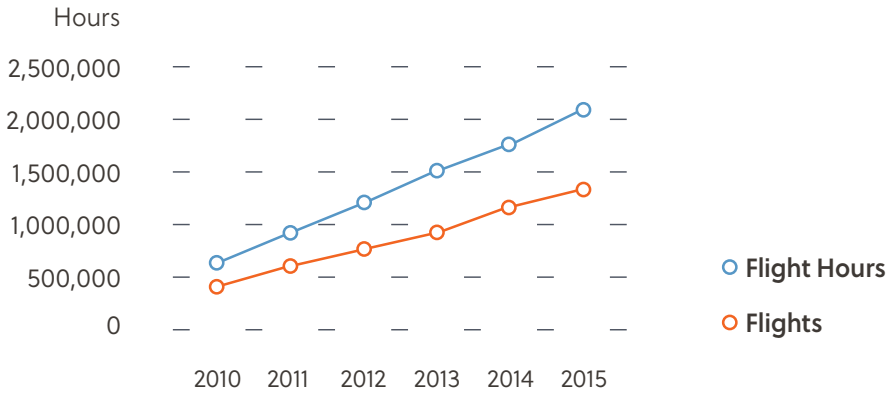
2016 FLYHT Plan:

- **Increase revenues +30% over 2015**
- **Complete development and roll out of a cloud-based UpTime user interface**
- **Establish a 24x7 service call center**
- **Close a new OEM opportunity**
- **Deploy our "Adopt Excellence" strategy: focused efforts to achieve profitability and to increase shareholder value**
- **In China: continued vigilance to meet mandate for SatCom in 2017; complete an AFIRS repair depot**

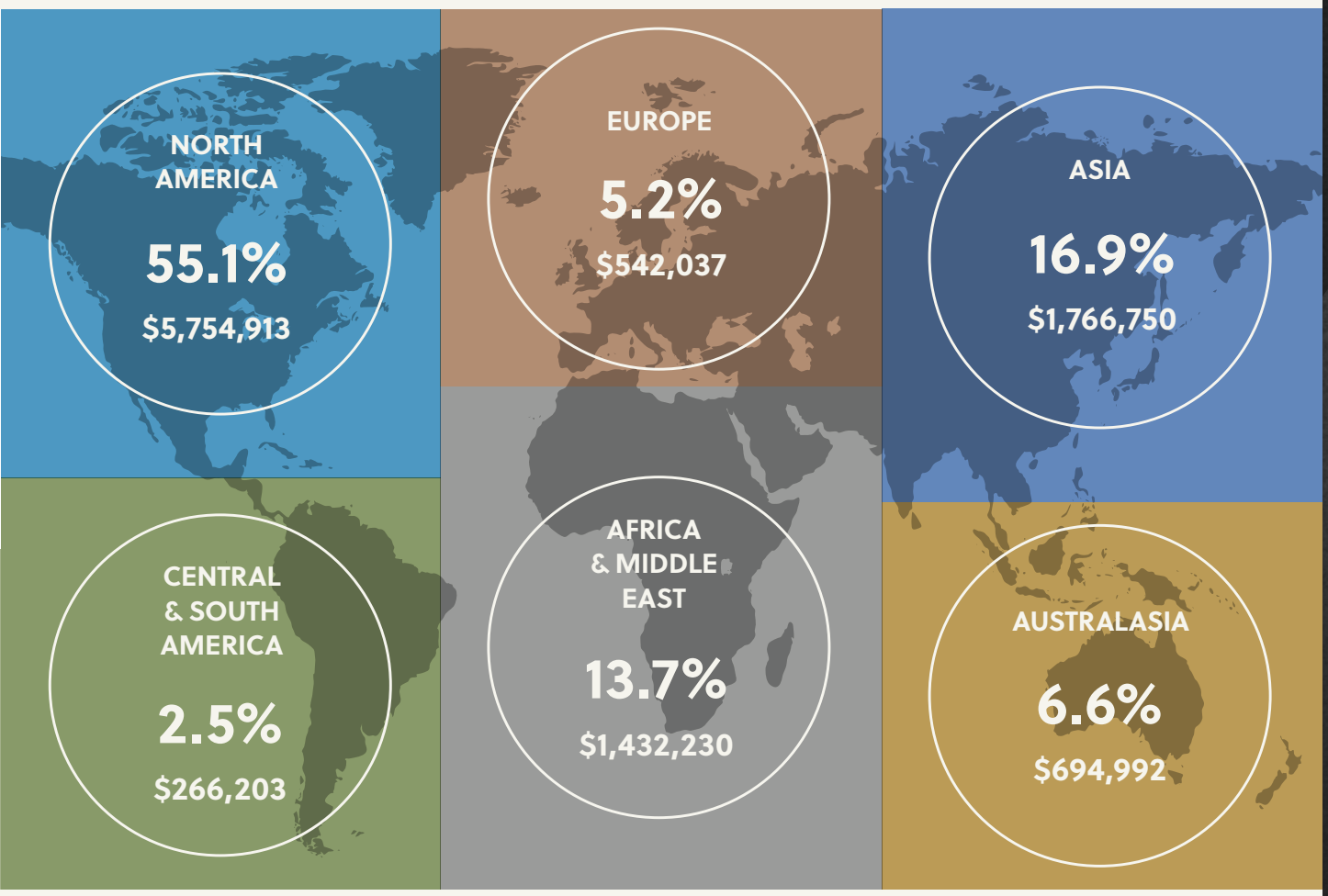
Revenue Sources



Flight Hours and Flights



Revenue Based on Location



TOTAL 2015 REVENUE: **$10,457,125**

2015 Sales & Marketing Update

FLYHT had several achievements on the Sales and Marketing front throughout 2015. The department went through a transition in July with the hiring of David Perez, VP Sales and Marketing. FLYHT also signed its largest contract to date with Avmax for 146 aircraft. Further achievements were completed in 2015 and established the launch point for 2016.

Organization & Process

IN 2015 FLYHT REFRESHED, TRANSITIONED AND REBUILT ITS SALES TEAM.

Part of the refresh occurred in June when the Company contracted an outside sales agency to assist with sales and marketing campaigns. This sales agency provided FLYHT with the ability to reach several airlines through their impressive email campaigns. Additionally, FLYHT re-organized their sales organization after David joined the team by hiring experienced industry sales resources to fortify the group and also moved the Product Management discipline under Sales and Marketing. Due to the interaction that Sales has with the market it made sense to feed the intelligence directly from Sales to the Product Development team.

Through other changes, FLYHT has created a sales process that provides senior management with improved visibility to allow for input from all departments on each deal. The Company uses financial models to provide clear financial metrics that can be viewed by all parties on the profitability of each contract.

Marketing

Further to the successful internal adjustments, FLYHT continued to attend a total of eight industry events in 2015. These global tradeshows spanned many regions including three in Asia, one in each of Africa and Europe and the remainder in the United States. FLYHT focuses on tradeshows that reach our target market including mid-tier airlines operating regional aircraft with limited communication capabilities, flight tracking or MRO-themed conferences and those events with a large OEM presence.

Tradeshows

- China Aviation New Technology Forum – China (April, 2015)
- AFRAA Convention – Kenya (April, 2015)
- Civil Avionics International Forum – China (April, 2015)
- EFB Conference – Germany (June, 2015)
- Global Connected Aircraft – Washington (June, 2015)
- Aviation Flight Operations & MRO IT Show – Thailand (October, 2015)
- AirInsight Cyber Conference – Washington (October, 2015)
- NBAA Convention – Las Vegas (November, 2015)

Key takeaways from each show include relationships with airlines to pursue sales or partnership opportunities and increased industry awareness on FLYHT's fit within the industry and on wider trends.

In continuation of the marketing improvements that commenced in 2015, in 2016 FLYHT will examine and revamp its sales tools including the website, branding and messaging. The FLYHT website was launched in 2011 and needs a refresh of materials and facelift to appeal to target customers.

Sales

FLYHT HAD A STRONG SALES YEAR IN 2015.

Our sales team signed six new contracts, including the Avmax agreement in September that contributed a new base of close to 170 aircraft to our contracts. This is a significant increase over our AFIRS count coming into the year. FLYHT increased the effort to sell data and services in 2015, and upsold many current clients to include valued-added features that also expanded revenue. China continues to be a primary focus area for FLYHT, with expansion goals targeting the tier one airline market. Tier one airlines include the top 25 airlines in the world based on revene. While we didn't make any inroads with the tier one airlines in 2015 we did sign FLYHT's largest customer to date in Avmax with 146 aircraft and this is a positive step to demonstrating our capabilities and technology to the larger carriers.

Addressing Industry Problems

In order to expand our customer base, FLYHT remains focused on the problems that are facing the industry and how we can market our technology to help airlines address those problems.

A COUPLE OF AREAS WE IDENTIFIED IN 2015 ARE BEING ADDRESSED.

- The market is demanding an integrated suite of solutions that can be delivered through a single web portal. Today's UpTime portal requires an update to include new functionality. The industry is also demanding a solution that provides alerts and notifications when problems occur. They want to "manage by exception" to be able to focus on the problem areas and not get distracted by normal operations. Actionable intelligence is the method AFIRS uses to acquire the data from the aircraft, interpret the data and then alert on the data if thresholds are exceeded. This integration of the products and alerting is the primary focus of our UpTime development that includes an overhaul and update. This project is a top priority for FLYHT in 2016.
- FLYHT is proactively providing customers with a more intuitive and appealing interaction to the AFIRS system. With all the data AFIRS provides and processes there is a need to distribute the information in a way that can be customized depending on airlines' needs. The new user interface that is planned for full launch later in 2016, already being tested with a few customers, is a fresh and intuitive program for airlines to navigate. The newly improved user interface is one of the features of AFIRS that enticed Avmax to invest in our technology.





- FLYHT now provides a Future Air Navigation System ("FANS") certified solution through the AFIRS 228S. Throughout the past few years FLYHT worked on obtaining the Canadian Technical Standard Order ("CAN TSO") Design Approval, CAN-TSO-C159b, and announced successful receipt in January 2016. The TSO receipt represents additional certification that FLYHT has achieved to increase its attractiveness to potential customers and expand its potential market. FANS allows for and supports improved data and surveillance of aircraft flying in remote regions and over the oceans. At the time of receipt AFIRS is the only product in the world to receive a TSO based on compliance to DO-262B for combined Iridium voice and datalink.

As listed above, the Sales team has observed the need for AFIRS technology to solve several problems and these apply to a variety of target airlines. AFIRS provides a lifeline to close the communications gap for airlines operating in remote areas with little to no VHF coverage. With AFIRS, airlines know where their aircraft are at all times and can communicate and send text messages to them through the FLYHTASD™ system enabled by the Iridium satellite network's global coverage. Not only does the system notify airlines where their assets are, FLYHTHealth™ detects, reports, and diagnoses to allow the airline to fix an issue immediately. This enhancement of the decision making process leads to fewer delays or flight cancellations, a reduction in unscheduled maintenance and improved on-time performance which all impact airline's cost cutting programs.

On the horizon

To progress and grow, the Sales and Marketing team are aggressively promoting AFIRS' capabilities to the global aviation market.

Specific regions of focus include the airlines in China and Asia that are improving their aviation communications technology to respond to increased growth. We will also reach mid-tier airlines operating regional aircraft and those without ACARS that require an Iridium capability.

Our efforts are strongly targeted to position FLYHT in the marketplace to solve problems and receive further recognition as an industry leader for connectivity and real-time aircraft intelligence.



2015 Major Announcements

CONTRACTS // IN 2015 FLYHT SIGNED A TOTAL SIX CONTRACTS WITH NEW CUSTOMERS WORLDWIDE. OF THE AIRCRAFT CONTRACTED, TWO WERE FOR THE AFIRS 220 AND 167 WERE FOR AFIRS 228.

February 10 // FLYHT attended ICAO meetings in Montreal and participated with the working group looking into aircraft data collection, storage and uses.

April 10 // FLYHT signed two new customers with AFIRS previously installed on their aircraft who decided to turn on and utilize the technology's benefits.

May 8 // FLYHT signed a contract with an African Airline for AFIRS on a fleet of four A320 aircraft.

May 12 // FLYHT reported the first quarter results as the highest quarter on record.

"Revenue for the quarter was the highest on record at $2.57 million, along with a very small loss," remarked FLYHT CEO Bill Tempany. "We are very pleased the contracts signed and relationships developed in the past few years are now starting to deliver returns."

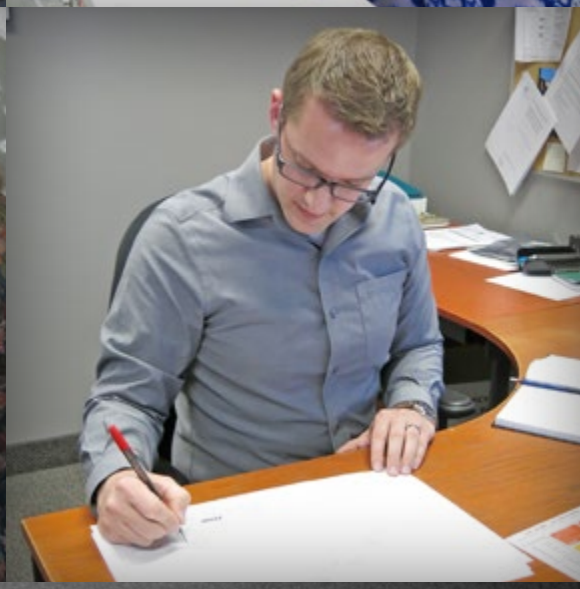
June 3 // FLYHT announced the election by the shareholders of retired Major General Mark V. Rosenker as a director of the Company. General Rosenker has many years of experience in the aviation industry including a past tenure as chairman of the National Transportation Safety Board ("NTSB"). He is currently a consultant to CBS News and appears on their network to discuss transportation safety issues.

"I'm honored and energized to have been appointed to the board of directors of FLYHT Aerospace Solutions. I have long believed that innovation, training, technology and information are keys to enhanced safety and accident prevention," said Mr. Rosenker. "What FLYHT brings today to the global industry is a combination of proven products and services that are cutting edge and raise the bar of safety for all that implement them."

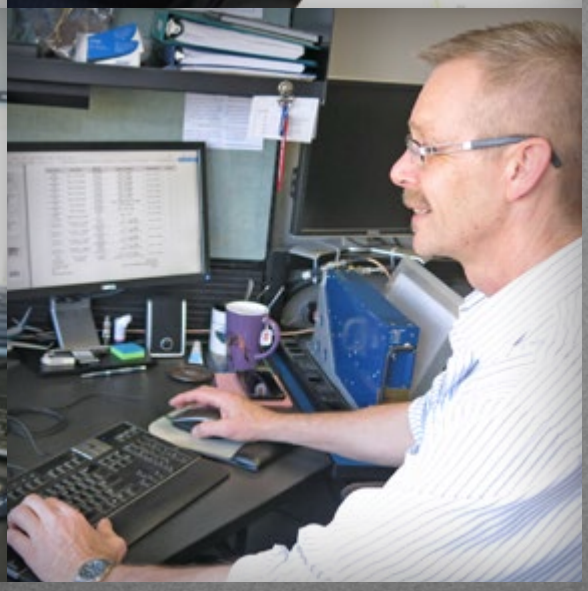










June 9 // FLYHT announced the receipt of the 2015 Excellence in Avionics Safety Systems Award from Avionics Magazine.
The award was presented to FLYHT's Director of Operations, Graham Ingham, at the 2015 Global Connected Aircraft Summit in Chantilly Virginia.

FLYHT's Automated Flight Information Reporting System ("AFIRS™") and FLYHTStream™ application were recognized as a critical and new safety system that enable the fastest response time, and most effectively help in an emergency, to guarantee safety, or to locate a lost aircraft in the event of a crash.

"We are honoured to receive this award for our advancement of safety in the industry," remarked Matt Bradley, President of FLYHT. "The real-time capability of FLYHTStream lets our customers know where their aircraft are at all times, and more importantly, what is happening when something goes wrong. It's a new level of connectivity and it contributes to the safety of their operation while also providing valuable real-time data that saves them money."

July 15 // FLYHT reported its customer of seven years, a Middle Eastern Military Organization has extended its contract for AFIRS voice and data services on 23 C-130 Hercules Aircraft with the AFIRS 228 installed.

"The contract extension is indicative of our strong relationship and the importance of operational control and global air traffic control compliance for the customer," stated Matt Bradley, President of FLYHT. "The C-130 is an exceptional platform for AFIRS, and this expanding fleet is a great showcase for what 21st century connectivity can do for real-time decision making."

July 20 // FLYHT announced that Mr. David Perez joined FLYHT as Vice President, Sales and Marketing effective July 20, 2015. Mr. Perez has over 25-years of accomplishments in the aviation industry. Most recently he had served as Director of Travel and Transportation at Hewlett-Packard ("HP"), where he leveraged his industry expertise to secure many strategic aviation agreements.

"I'm excited by the valuable opportunities FLYHT brings to the aviation industry, as well as the potential of creating additional profitable revenue streams that will enhance the Company's shareholder value," commented Mr. Perez. "FLYHT is uniquely positioned to provide global flight tracking and data analysis to the aviation market."

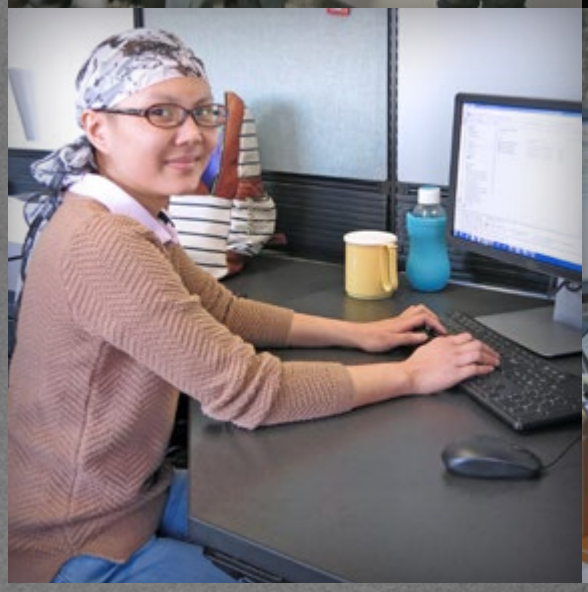
August 11 // FLYHT was selected by Alberta Venture Magazine in a list of the province's 20 most innovative companies. Alberta Venture's annual innovators list is comprised of companies from a variety of sectors who are solving problems by thinking outside of the box in what they describe as **"a compulsion to be better and an inability to be satisfied with the way things are".**

September 28 // FLYHT and Avmax announced an agreement for the AFIRS™ 228 for the two airlines Avmax owns, as well as its current and future leased fleet, for a total fleet size of 146 aircraft over a seven-year term.

"Avmax did an extensive review of products in the market and AFIRS was selected because it met all of our business needs. FLYHT's solution was superior to the other products we evaluated in the market," remarked Al Young, VP of Avmax Canada and R1 Airlines. "We will be able to provide world-class solutions, not only to our own fleet, but also to those aircraft that are leased to other airlines and give us higher visibility and data on our assets. We anticipate high cost savings on engine repairs as well as the other advantages of the product for operations, communications and maintenance support."

October 14 // FLYHT received a re-issued Supplemental Type Certificate ("STC") for its Automated Flight Information Reporting System ("AFIRS™") 228 on the Airbus A320 series aircraft from the Federal Aviation Administration ("FAA"). The STC has been re-issued to add the AFIRS 228 to this existing STC.














October 19 // FLYHT announced changes to its executive management team. Mr. Thomas R. Schmutz, MEng, MBA, was appointed the new chief executive officer of the Corporation. Mr. Bill Tempany retired from his role as CEO, but remained on the board of directors and was appointed the chairman of the board. In addition, Mr. Matt Bradley resigned from his position as president of the Corporation to pursue new career opportunities.

"I am extremely excited about the opportunity to lead FLYHT as we head into the connected aircraft future," said Thomas R. Schmutz. "The AFIRS™ UpTime technology is cutting edge and the value proposition for airline operators and OEM manufacturers is being demonstrated daily."

"My retirement is the culmination of work to structure FLYHT for success including changes to the board, a solid team to deliver solutions, opportunities to make FLYHT a global force in aviation and a new CEO to lead the charge," stated Bill Tempany. "It was a pleasure to lead the FLYHT team with the board's support to put our company in a position to change a global industry."

November 3 // FLYHT announced its third quarter results were the second highest on record with revenue of $2.52M. Also updated that the July 29 private placement was withdrawn because market conditions were not conducive to a U.S.A. based offering.

December 8 // FLYHT applied to the TSX Venture Exchange to extend the expiry date of the conversion feature of the Company's debentures by one year and amend the conversion price to $0.25 per share. The Company also applied to amend the exercise price of the share purchase warrants to $0.20 from $0.75 and received TSX approval on December 15, 2015.

December 17 // FLYHT received a Supplemental Type Certificate ("STC") for AFIRS on the Boeing 737 Classic and 737 Next Generation series aircraft from the National Civil Aviation Agency ("ANAC") of Brazil.

December 21 // FLYHT announced the granting of a non-exclusive license to use certain of its intellectual property (the "IP"). The license was granted to a technology company (the "Licensee") for an aggregate license fee of $2.5 million USD, payable in the first quarter of 2016.

To Our Shareholders



The 2015 financial year was a period full of accomplishment for FLYHT; we set "best revenue" records for our financial performance, we made excellent progress on our stated goals for the year, we further enhanced our board of directors and sales team and we won awards in the industry and community.

Furthermore, we smoothly transferred executive control of the Company, reorganized internally and adopted several new approaches, standards and goals for the year 2016 and beyond. There is significant optimism within the Company resulting from our improving financial performance and strong feedback from OEM and solution partners that the unique offerings of FLYHT are now timely and are recognized to solve important problems within our industry.

The 2015 year ended with a record revenue fourth quarter (Q4) of $3.8 million, or 46.7% higher than the previous record quarter, which was the first quarter (Q1) of the same year. Q1 was itself only $51k ahead of the third quarter (Q3) of 2015! So, the three highest revenue quarters in our history were all achieved in 2015. The resulting $10.5M annual revenue for 2015 was also a revenue record, a 51.9% improvement on 2014 and 30.7% ahead of the previous best year in 2013. The additional revenue fell to the bottom line but an operating loss of $3.2 million was still reported for 2015. This was $0.4 million less loss than 2014 but, if we remove the impact of the one-time add back in 2014 of the $1.95 million SNC legal claim provision and the impact of the costs of retirement and changes in key management positions in both 2014 and 2015, the normalized comprehensive loss has decreased 49% or $2.5 million. Noteworthy financial progress has been made, but we need to do more in order to internally fund our operations and produce returns for our loyal shareholders.

The Company utilized net $2.9 million cash during the year because of the losses, but it is also pleasing to report that the cash balance reported at December 31, 2015 is $5,000 more than that at September 30, 2015. FLYHT progressively self-funded more of its operations, or consumed less cash, each quarter, from $1.7 million utilized in Q1, to $0.6 million utilized in Q2 and Q3 to neutral in Q4. Working capital items were well controlled so did not contribute to a cash burn. The redeemable and convertible debentures mature within the coming twelve months and therefore they are now classified as current liabilities on the statement of financial position. Management is addressing this debt and the Company continues to strive to self-fund operations in 2016.

Our goals for 2015 included expanding the sales team and capturing a major carrier. We did expand our team and have put into place standardized sales processes and materials. We captured our largest customer to date, Avmax Aviation Services Inc. ("Avmax"), who operates or leases 146 Bombardier aircraft. We also continued expansion in China, winning positions at five airlines, including direct sales and sales through partners, and began the process of establishing a depot maintenance facility. This latter goal was not completed in 2015 but will be accomplished by mid-2016. We responded to a significant OEM opportunity for alerting and streaming aircraft data and we remain hopeful that our outstanding technology will be selected.

FLYHT also collected awards in 2015.

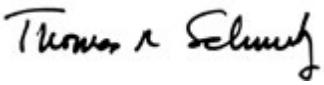
FLYHT was awarded the 2015 Excellence in Avionics Safety Systems Innovation Award by Avionics Magazine for the AFIRS™ and FLYHTStream™ products. Closer to home, the Alberta Venture Magazine included FLYHT in a list of 20 most innovative companies. These awards demonstrate recognition of the unique solutions that FLYHT has brought to the industry and are a source of pride for our team, along with the 2015 achievement of over two million AFIRS flight hours on our customers' aircraft, accumulated on more than one million flights.

As we advance in 2016, we are making significant investment in the redevelopment and roll out of an updated, cloud based implementation of the Uptime™ ground based user software. We have collected important lessons learned in the legacy, server based applications that we currently provide as a seminal service provider in the connected aircraft space. This UpTime suite of products includes FLYHTVoice™, FLYHTLog™, FLYHTASD™, FLYHTMail™, FLYHTHealth™, FLYHTFuel™ and, of course, FLYHTStream™ along with some other product components. UpTime features will include an integrated user interface to this suite using the latest cloud-based application implementation in order to enhance service availability and intuitive usability, while providing some dramatic enhancements.

We have created new goals for 2016 including the launch of a 24x7 call center to enhance customer service. Internally, we've implemented the "Adopt Excellence" program which establishes our goals and objectives to improve internal efficiencies which in turn will further enhance financial performance of the Company. Furthermore, we have set very aggressive sales goals and budgets to control expenditures to continue our efforts toward profitability and growth.

FLYHT continues to monitor industry discussions on aircraft tracking and other safety related industry initiatives, but the delays and industry stonewalling in these efforts indicate that there will not be any type of regulatory action in the next year or more. Most recently, the International Civil Aviation Organization (ICAO) adopted new provisions to include a requirement for aircraft to carry an autonomous tracking device which can transmit location information at least once every minute in distress circumstances by the year 2021. This new provision is separate from ICAO's proposal to require a standard of reporting aircraft position at least every 15 minutes when in oceanic or remote airspace. This later requirement, originally targeted for 2016 as a result of the MH370 disaster, has been pushed back to 2018. FLYHT stands ready with our solution set to address these or any other similar regulatory response, but we are focused on demonstrating how our existing, fielded, proven solutions save customers money while dramatically enhancing the safety and situational awareness of their fleet today.

We remain very positive about our significant ability to improve the operational efficiencies of airlines and are as engaged as ever at FLYHT. Our monthly CEO investor letters are designed to help provide as much background information as we can to help you understand how we run the business. Thank you for your support of our Company and we look forward to a very exciting and opportunity filled 2016!



Thomas R. Schmutz

Chief Executive Officer

Management Discussion & Analysis

This management discussion and analysis ("MD&A") is as of April 5, 2016 and should be read in conjunction with the audited annual consolidated financial statements of FLYHT Aerospace Solutions Ltd. ("FLYHT" or the "Company") as at and for the years ended December 31, 2015 and 2014 and the accompanying notes. Additional information with respect to FLYHT can be found on SEDAR at www.sedar.com. The Company has prepared its December 31, 2015 consolidated financial statements and the notes thereto in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). The Company's accounting policies are provided in note 3 to the consolidated financial statements.

Non-GAAP Financial Measures

The Company reports its financial results in accordance with International Financial Reporting Standards ("IFRS") or Generally Accepted Accounting Principles ("GAAP"). It also occasionally uses certain non-GAAP financial measures, such as working capital, modified working capital, and loss before research, development and certification engineering expenses ("R&D"). FLYHT defines working capital as current assets less current liabilities. The Company defines modified working capital as current assets less current liabilities not including customer deposits or the current portion of unearned revenue. A clearer picture of short-term net cash requirements can be drawn by excluding these two items because those customer deposits and unearned revenue are nonrefundable. Loss before R&D is defined as the net loss before the direct costs associated with R&D. These non-GAAP financial measures are always clearly indicated. The Company believes that these non-GAAP financial measures provide investors and analysts with useful information so they can better understand the financial results and perform a better analysis of the Company's growth and profitability potential. Since non-GAAP financial measures do not have a standardized definition, they may differ from the non-GAAP financial measures used by other companies. The Company strongly encourages investors to review its financial statements and other publicly filed reports in their entirety and not rely on a single non-GAAP measure.

Forward-Looking Statements

This discussion includes certain statements that may be deemed "forward-looking statements" that are subject to risks and uncertainty. All statements, other than statements of historical facts included in this discussion, including, without limitation, those regarding the Company's financial position, business strategy, projected costs, future plans, projected revenues, objectives of management for future operations, the Company's ability to meet any repayment obligations, the use of non-GAAP financial measures, trends in the airline industry, the global financial outlook, expanding markets, R&D of next generation products and any government assistance in financing such developments, foreign exchange rate outlooks, new revenue streams and sales projections, cost increases as related to marketing, R&D, administration expenses, and litigation matters, may be or include forward-looking statements. Although the Company believes the expectations expressed in such forward-looking statements are based on a number of reasonable assumptions regarding the Canadian, U.S.A., and global economic environments, local and foreign government policies/regulations and actions, and assumptions made based upon discussions to date with the Company's customers and advisers, such statements are not guarantees of future performance and actual results or developments may differ materially from those in the forward-looking statements.

Factors that could cause actual results to differ materially from those in the forward-looking statements include but are not limited to production rates, timing for product deliveries and installations, Canadian, U.S.A., and foreign government activities, volatility of the aviation market for FLYHT's products and services, factors that result in significant and prolonged disruption of air travel worldwide, U.S.A. military activity, market prices, foreign exchange rates, continued availability of capital and financing, and general economic, market, or business conditions in the aviation industry, worldwide political stability or any effect those may have on the Company's customer base. Investors are cautioned that any such statements are not guarantees of future performance, and that actual results or developments may differ materially from those projected in the forward-looking statements.

Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to have been correct. The Company cannot assure investors that actual results will be consistent with any forward-looking statements; accordingly, readers should not place undue reliance on forwardlooking statements. The forward-looking statements contained herein are current only as of the date of this document. The Company disclaims any intentions or obligation to update or revise any forward-looking statements or comments as a result of any new information, future event or otherwise, unless such disclosure is required by law.

FLYHT Overview

FLYHT is a leading provider of real-time aircraft intelligence and cockpit communications for the aerospace industry. More than 50 customers, including airlines, leasing companies and original equipment manufacturers, have installed our systems in order to increase safety, improve operational efficiencies and enhance profitability. FLYHT's tools deliver data and voice communication between the aircraft and operations groups on the ground, on demand. The Company's products are available for commercial, business and military aircraft. FLYHT's proprietary technology, the Automated Flight Information Reporting System (AFIRS™), operates on multiple aircraft types and provides functions such as safety services voice and text messaging, data collection and transmission, and on-demand streaming of flight data recorder (black box), engine and airframe data. AFIRS has flown over 2.1 million aggregate flight hours and 1.4 million flights on customers' aircraft. FLYHT holds supplemental type certificates (STC) which allow for the installation of AFIRS on 95% of transport category aircraft.

FLYHT's products and services are marketed globally by a team of employees and agents based in Canada, the United States, China, and the United Kingdom.

AFIRS™ and UpTime™

AFIRS is a device installed on aircraft that monitors hundreds of essential functions from the aircraft and the black box. AFIRS sends this information through the Iridium satellite network to FLYHT's UpTime™ ground-based server, which routes the data to customer-specified end points and provides an interface for real-time aircraft interaction. In addition to its data monitoring functions, AFIRS provides voice and text messaging capabilities that give pilots the ability to communicate with ground support. Value-added applications such as FLYHTStream™, FLYHTLog™, FLYHTASD™, FLYHTMail™, FLYHTHealth™ and FLYHTFuel™ are unique to FLYHT. FLYHT's global satellite coverage is enabled by the Iridium satellite network, providing service to our customers when they need it anywhere on the planet.

FLYHT first marketed its technology with the AFIRS 220 in 2004. The unit received regulatory certification for installation in a large number of widely used commercial aircraft brands and models (see systems approvals section). The AFIRS 228, released in 2009, incorporates improvements over the AFIRS 220 in processing capacity, data transmission characteristics and programmability. The AFIRS 228 features cater to the evolving needs of airlines by providing a customized and flexible product. In early 2016, FLYHT announced the Canadian Technical Standard Order ("CAN-TSO") Design Approval, CAN-TSO-C159b for the AFIRS 228S. The certification, granted by Transport Canada, represents an additional level of airworthiness standards met by AFIRS to provide safety services messages and data.

FLYHTStream™

FLYHTStream is a revolutionary, industry-leading technology that performs real-time triggered alerting and black-box data streaming in the event of an abnormal situation on an aircraft. FLYHTStream can be activated automatically by a set of pre-determined factors, by the pilots or on the ground by airline operations. It uses AFIRS' onboard logic and processing capabilities in combination with UpTime's ground-based servers to interpret and route alerts and messages from the aircraft in trouble to key groups on the ground, such as the airline, operation centers and regulators. Animation software converts the raw FDR data into visual data that can be viewed from any computer, providing ground personnel a view of the controls and awareness of what's happening onboard the aircraft.

FLYHTFuel™

A powerful program that focuses attention on areas of greatest savings potential to provide information necessary to make decisions about the operation. Most airlines currently rely on a system of manually generated and analyzed reports to make fuel savings decisions within the operation. This is time-consuming and relies on the user to calculate areas of potential by cross-referencing a great number of queries. FLYHTFuel is both a report-generation tool and a dynamic, interactive application that generates alerts and provides the user with the ability to quickly identify trends. The dashboard compares how pilots are operating the aircraft to how they could be flying in order to maximize efficiency and fuel savings. The unique application highlights exceptions to best practices, provides quick drill downs to spot the root cause of issues, and identifies trends. Where compliance has not been met, associated costs, in a dollar amount, are shown. The tool is de-identified to meet pilot union requirements, but can be filtered to display performance by pilot if desired. It is an intuitive tool that enables fuel managers to act on information instead of compiling and analyzing data.

FLYHTASD™

FLYHTASD is an aircraft situational display that shows the aircraft position reports from AFIRS via the Iridium satellite network. A unique application that integrates real-time flight following, routine aircraft notifications, aircraft health exceedance alerts and the ability to send text messages immediately to the aircraft. The program supports a number of aviation-specific tools including charts and weather information. It also provides the aircraft operator with the ability to start FLYHTStream, black box data streaming, on their airborne aircraft at any time.

FLYHTHealth™

Consists of automated engine and airframe trend monitoring and real-time exceedances and diagnostics. Automated trend reports with configurable reporting intervals notify the airline when a maintenance event has occurred. Leveraging the global coverage of the Iridium satellite network, FLYHTHealth allows the airline to request data directly from the engine once a problem has been detected. The airline can then use FLYHT's real-time systems diagnostics capabilities to interrogate systems information and identify the source of the problem and prepare the arrival station for repair, long before the aircraft lands at its destination. By automating and enhancing the real-time and long-term monitoring of airplane data, FLYHTHealth enables proactive management of maintenance and reduces downtime and the financial impact of unscheduled maintenance.

FLYHTLog™

Allows operators to monitor the status of their aircraft and have detailed Out, Off, On and In ("OOOI") time information. It allows airlines to automatically route aircraft system and operational data to various partner systems. Additionally, FLYHTLog increases situational awareness and accurate flight times, saving money on flight crew pay and maintenance operations.

FLYHTMail™

Two-way text messaging to the flight deck is established through the multi-control display unit ("MCDU") or an iPad application. Text messaging is highly useful to manage diversions due to weather, mechanical occurrences or other unforeseen situations.

FLYHTVoice™

The onboard satellite phone, using the Iridium satellite constellation with global coverage, is a rapid and reliable private communication channel for the flight deck. When operating remote or oceanic flights, it allows dispatch to pass on updated information to the crew with no delay. The voice capability is particularly valuable during emergency situations or irregular operations.

Underfloor Stowage Unit

The Underfloor Stowage Unit offers the flight crew additional stowage space in the cockpit. With this addition, manuals are always within reach of the seated crew and are kept safe, dry and clean inside the stowage unit. In addition, safety equipment and other items required by the flight crew can be accessed any time throughout the flight without leaving the cockpit. The stowage unit is certified to be installed in Bombardier CRJ series, Challenger and DHC-8s and can also be installed in other aircraft types.

The Dragon™

As part of an evaluation of its products and services and in order to focus attention where it is needed most, FLYHT is discontinuing the sale of the Dragon™. This decision will not impact FLYHT's current Dragon customers.

System Approvals

A STC is an airworthiness certification required to modify an aircraft from its original design and is issued by an aviation regulator. FLYHT's AFIRS equipment is an addition to an aircraft and therefore an STC is required prior to installation. FLYHT has received or applied for AFIRS product approvals from TCCA, the FAA, EASA, ANAC, ECAA, DGAC and the CAAC for various aircraft models, depending on customer requirements.

FLYHT's expertise in airworthiness certification enabled it, in October 2008, to join a select group of Canadian companies who are approved by TCCA as a Design Approval Organization ("DAO"). Very few organizations achieve DAO status because of the time and expertise required to meet TCCA standards. FLYHT's DAO status, along with the delegations it has received, allows the Company to obtain and revise its own STCs with minimal TCCA oversight. This speeds up the process by lessening wait times, and reduces cost and reliance on contractors.

In addition to its DAO status, the Company has an engineer on staff with delegated authority, allowing him to approve electrical design aspects of an airworthiness certification. If an issue is encountered during the STC process, the delegated staff member has the authority to approve necessary changes and continue the process without the involvement of an external party.

The process to receive a STC takes time to complete but always starts with an application for the STC through any one of TCCA, FAA or EASA. Generally, FLYHT starts the process with TCCA by opening an application with the regulator, after which an STC data package is created. The data package consists of the engineering documents that outline how the AFIRS equipment will be installed on the aircraft. Once the data package is prepared and first stage approvals granted by the regulator, ground and flight tests take place. To fulfill the flight test requirement, FLYHT must have access to the appropriate type and model of aircraft. This is done in cooperation with an existing or potential customer. Once these tests are completed, FLYHT submits an activation data package to TCCA that enables the AFIRS unit to be integrated with the aircraft systems. If TCCA approves the submission, an STC is issued. To obtain an STC from another regulator, FLYHT prepares an application, which is sent through TCCA to the regulator such as FAA, EASA, ANAC, ECAA, DGAC or CAAC along with the STC package previously approved by TCCA. The regulator reviews the package and issues the STC.

The time required for the approval process through TCCA varies depending on the aircraft and workloads. A general rule of thumb is approximately three months, with a minimum of another three months if an STC is required from another regulator.

The Company, over the next several years, will file the necessary documents to obtain approval for the AFIRS 228 in parallel to the majority of current 220 STCs, depending on market requirements.

TCCA		FAA		EASA		CAAC		ANAC		
220	228	220	228	220	228	220	228	220	228	
A	A	A	A	A	A	A	A			**Airbus A319, A320, A321**
A										**Airbus A330**
	A		I						A	**ATR42-300, -500**
	A		I						A	**ATR72-100, -200**
	A		I						I	**ATR-42-500**
					I*					**ATR42-500 "600 Version" *STC Twenty One**
					I*					**ATR72-212A "600 Version" *STC Twenty One**
A		A		A		A				**Boeing B737 -200**
A	A	A	A	A		A	I		A	**Boeing B737 -300, -400, -500**
A		A		A		A				**Boeing B737 -600**
A	A	A	A	A		A	A		A	**Boeing B737 -700, -800**
			I				I			**Boeing B737 -900**
	A									**Boeing 747-200**
A	A	A	I	A	I	A	I			**Boeing 757 -200**
A	A	A	A	A	I	A	I			**Boeing 767 -200, -300**
	A		A							**Boeing B777**
A	I*	A		A						**Bombardier DHC 8 -100, -200, -300 *Avmax**
A	P						I			**Bombardier DHC 8 -400**
A	A	A		A			I			**Bombardier CRJ 100, 200, 440**
	A						A			**Bombardier CRJ -700, 900**
A		A								**McDonnell Douglas DC-10 (KC-10 military)**
			I							**McDonnell Douglas MD-82**
	A		I							**McDonnell Douglas MD-83**
A										**Fokker 100**
A	A	A	A	A	A					**Hawker Beechcraft -750, 800XP, 850XP, 900XP**
A										**Viking Air DHC -7 (LSTC)**
	I									**Embraer EMB 190**
		A								**Embraer Legacy 600 and EMB – 135/145**

FLYHT has also received an approved AFIRS 228 STC for the Bombardier CRJ- 700, 900 from the DGDC in Mexico. AFIRS 220 or 228 model

A = Approved, P = Pending (We have received a Provisions STC and are in the final stages before receiving a full STC), I = In Progress.
* = Occasionally FLYHT may partner with a third party to gain STC approval.

FLYHT announced additional certification in January 2016, with the receipt of the Canadian Technical Standard Order ("CAN-TSO") Design Approval, CAN-TSO-C159b for the AFIRS 228S. The certification, granted by Transport Canada, represents an additional level of airworthiness standards met by AFIRS. A Technical Standard Order is a minimum performance standard issued by an airworthiness authority for specified materials, parts, processes, and appliances used on civil aircraft. Issuance of the CAN-TSO by TCCA through international agreements, represents recognition of the AFIRS 228S in the world's major airworthiness jurisdictions, thus simplifying the STC and installation process.

This TSO certification confirms that AFIRS 228S meets all product requirements, including DO-262B Minimum Operational Performance Standards for Avionics Supporting Next Generation Satellite Systems (NGSS), for an Iridium SATCOM supporting Future Air Navigation System ("FANS") -1/A capability. FANS allows for and supports improved data and surveillance of aircraft flying in remote regions and over the oceans. Additionally, the certification enables voice and data services for Air Traffic Control ("ATC"), Aeronautical Operational Control ("AOC") and Air-to-Air Communication ("AAC") using Iridium's global satellite network. The system also provides ACARS over Iridium messaging capability.

Trends and Economic Factors

FLYHT examines the results of growth and measurements made by leading aviation groups in order to determine the health of the industry. AFIRS is a technology that can be installed on commercial, business or military aircraft.

Passenger traffic (measured in Revenue Passenger Kilometers or "RPK") saw a 6.5% increase in 2015 compared to the previous year and was the strongest result in five years[1]. All regions saw demand growth in 2015 and load factors that measure the capacity of flights were at a record annual high of 80.3%, an increase of 0.6% over 2014. Demand in international markets at 6.5% was slightly higher than domestic travel at 6.3%. Global freight traffic (measured in Freight Tonne Kilometers or "FTK") increased by 2.2% in 2015, which was lower than the 4.5% growth in 2014[2]. RPK and FTK measure passenger and freight contributions to airline revenue. These are significant measures to determine the health of the industry because the larger the increase, the more people are flying and freight shipping, suggesting growth in the industry.

Large commercial aircraft manufacturers marked record numbers for deliveries and new orders in 2015. Airbus achieved a new record for aircraft deliveries of 635 aircraft for 85 customers, an increase from 629 aircraft in 2014. 2015 deliveries continued the upward trend for the 13th consecutive year[3]. Boeing also reached new heights, delivering 762 aircraft in 2015, 39 more than the previous year.[4] Embraer set a five-year record and delivered a total of 101 commercial and 120 executive jets (82 light and 38 large), in 2015[5]. Bombardier delivered less aircraft than in 2014, a total of 275 business and commercial jets compared to 290 aircraft in the previous year. The company also announced that it would undergo some transformation in its programs and a restructuring in 2016 resulting in a loss of jobs[6].

Results for the general aviation industry were not as strong in the year due to the fluctuating world economy. The General Aviation Manufacturers Association ("GAMA") reported that numbers in worldwide general aviation airplane shipments fell in 2015 5% from 2,454 in 2014 to 2,331 shipments in 2015[7].

FLYHT continues to be an industry leader in providing airlines with increased operational control and aircraft situational awareness. The Company's efforts in the year have been on the early stage redevelopment and implementation of a cloud-based UpTime user software. This development will occur in 2016 and marks an improvement on our current technology; taking into consideration customer feedback and optimization. The FLYHTHealth program is significant in its ability to detect and notify the airline of any problems while the aircraft is in flight and prepare for repair before the aircraft lands, thereby reducing the financial impact of unscheduled maintenance. Since 2009, FLYHT has had the technology to stream black box data in real-time. As a result of industry events and accidents during 2014, FLYHT has participated in working groups and demonstrated the AFIRS technology with FLYHTStream capabilities on industry panels. Multiple working groups included sessions with the Malaysian Government, ICAO, IATA, the NTSB and ITU. FLYHT will continue to participate in industry working groups to advance engineering and technical requirements and prepare for future development of the AFIRS product line to meet industry needs.

The weakening of the Canadian dollar relative to the U.S. dollar throughout 2015 had a positive impact on the Company's revenue and income compared to 2014. As a result of these currency movements, the Company's revenues, which are substantially all denominated in U.S. dollars, were higher than they would have been had the foreign exchange rates not changed. It is the standard of the aviation industry to conduct business in U.S. dollars. While the majority of the Company's operating and overhead costs are denominated in Canadian dollars, a significant portion of the cost of sales, marketing and distribution costs are U.S. dollar denominated, and therefore a natural hedge exists against fluctuations of the Canadian dollar.

Contracts and Achievements of Fiscal 2015

Contracts

FLYHT Aerospace Solutions Ltd. signed a total of six contracts on 169 aircraft with customers worldwide. Two were for the AFIRS 220 and 167 for the AFIRS 228, as described below;

In April, FLYHT signed contracts with new customers that had AFIRS 220 units previously installed on their aircraft. One was with an African operator on a Bombardier DHC-8; the other is with a Caribbean carrier on a Boeing 767-300.

In May, FLYHT signed a contract with an African Airline for the AFIRS 228 on a fleet of four A320 aircraft.

In September, FLYHT signed a contract with Avmax Aviation Services Inc. to install the AFIRS 228 on the two airlines Avmax owns, as well as its current and future leased fleet, for a total fleet size of 146 aircraft over a seven year term.

Throughout the year FLYHT signed contracts with five airlines in China, including direct sales and sales through partners, for a total of 18 aircraft.

1 http://www.iata.org/pressroom/pr/Pages/2016-02-04-01.aspx

2 http://www.iata.org/pressroom/pr/Pages/2016-02-03-01.aspx

3 http://www.airbus.com/newsevents/news-events-single/detail/airbus-exceeds-targets-in-2015-delivers-the-most-aircraft-ever/

4 http://boeing.mediaroom.com/2016-01-07-Boeing-Achieves-Record-Commercial-Airplanes-Deliveries-in-2015

5 http://www.embraer.com/Documents/noticias/003-Embraer%20Deliveries%204Q15-Ins-VPF-I-16.pdf

6 http://www.bombardier.com/en/media/newsList/details.binc-20160217-bombardier-announces-financial-results-for-the-fou.bombardiercom.html

7 http://www.gama.aero/media-center/press-releases/content/gama-unveils-2015-year-end-shipment-and-billing-numbers-%E2%80%9Cstate-i
and
http://www.gama.aero/media-center/industry-facts-and-statistics/shipments-billings

Achievements

- In the first quarter FLYHT reported the highest revenue yet achieved in a quarter, $2,569,908, and a loss for the period close to break even.
- In June, FLYHT announced the election of retired Major General Mark V. Rosenker to the Board of Directors.
- In June, FLYHT was recognized with the 2015 Excellence in Avionics Safety Systems Innovation Award by Avionics Magazine.
- In July, FLYHT welcomed Mr. David Perez as Vice President, Sales and Marketing. Mr. Perez has over 25 years of experience in the aviation industry.
- In August, FLYHT was selected by the Alberta Venture Magazine in a list of 20 most innovative companies.
- In the third quarter FLYHT reported the second highest revenue achieved in a quarter, $2,519,347; second only to the first quarter of 2015 by $50,561.
- In October, subsequent to the end of the third quarter, FLYHT announced appointment of Mr. Thomas R. Schmutz as new CEO of the Company. In a career of more than 30 years, he gained extensive experience in senior leadership roles in the aerospace and telecommunications industries.
- In December, FLYHT announced the granting of a non-exclusive license to use certain of its intellectual property (the "IP") to a technology company for an aggregate license fee of $2.5 million USD, payable in the first quarter of 2016.
- In the fourth quarter FLYHT reported a new quarterly revenue record, $3,769,267, being the third record revenue quarter in the 2015 financial year. The results show a 51.9% improvement on 2014 revenue and 30.7% ahead of the previous highest revenue year in 2013.

Results of Operations – Years Ended December 31, 2015 and 2014

Selected Results

2015	Q4 $	Q3 $	Q2 $	Q1 $	Total $
Assets	5,478,867	6,140,675	6,344,752	7,752,509	5,478,867
Non-current financial liabilities	390,110	3,267,030	3,053,577	5,407,303	390,110
Revenue	3,769,267	2,519,347	1,598,603	2,569,908	10,457,125
Cost of sales	1,340,513	672,341	562,535	637,901	3,213,290
Distribution expenses	1,084,443	1,142,086	987,330	763,774	3,977,633
Administration expenses	1,573,796	607,755	943,931	551,471	3,676,953
Research, development and certification engineering expenses	689,195	638,104	737,968	737,285	2,802,552
Loss (income) from operating activities	918,680	540,939	1,633,161	120,523	3,213,303
Loss	1,203,998	683,224	1,943,924	60,414	3,891,560
Loss (income) before R&D	514,803	45,120	1,205,956	(676,871)	1,089,008
Loss per share (basic & fully diluted)	0.01	0.00	0.01	0.00	0.02
2014	**Q4 $**	**Q3 $**	**Q2 $**	**Q1 $**	**Total $**
Assets	8,275,546	8,968,372	10,281,225	9,734,630	8,275,546
Non-current financial liabilities	5,506,179	2,728,769	2,433,044	2,262,812	5,506,179
Revenue	2,218,681	1,808,794	1,505,767	1,348,786	6,882,028
Cost of sales	849,221	655,927	604,860	440,043	2,550,051
Distribution expenses	990,650	806,051	816,240	780,050	3,392,991
Administration expenses	780,039	985,756	1,119,379	663,344	3,548,518
Research, development and certification engineering expenses	772,725	848,119	(1,277,790)	434,695	777,749
Loss (income) from operating activities	1,173,954	1,487,059	(243,078)	969,346	3,387,281
Loss	1,305,712	1,653,147	46,925	1,273,101	4,278,885
Loss before R&D	532,986	805,028	1,324,716	838,406	3,501,136
Loss per share (basic & fully diluted)	0.01	0.01	0.00	0.01	0.03

Financial Position

Liquidity and Capital Resource

The Company's cash at December 31, 2015 decreased to $1,301,955 from $3,910,962 at December 31, 2014 due mainly to cash used in operating activities in the first half of the year. FLYHT utilized net $2,894,478 million cash during the year (excluding the unrealized foreign exchange differences) to fund the losses. The Company progressively self-funded more of its operations, or consumed less cash, each quarter, from $1,666,232 utilized in Q1, to $622,400 utilized in Q2, $621,716 utilized in Q3 and $15,870 cash generated in Q4, as reported on the statements of cash flow. Working capital items were well controlled so did not contribute to a cash burn. The Company has an available and undrawn operating line of $250,000 at Canadian chartered bank prime plus 1.5%, secured by assignment of cash collateral and a general security agreement.

The convertible and the redeemable debentures mature during 2016 and have been classified as current liabilities at December 31, 2015. The Company thus had negative working capital of $5,413,927 compared to positive $3,009,025 as of December 31, 2014, a decrease of $8,422,952 comprising $2,609,007 cash decrease, $5,267,636 increase in current portion of loans and borrowings reclassified from non-current liabilities and a net decrease in other working capital of $546,309. Neither customer deposits, nor the current portion of unearned revenue are refundable, and if those two items are excluded in the working capital calculation, the resulting modified working capital at December 31, 2015 would be negative $3,306,055 compared to positive $5,283,775 at December 31, 2014.

The Company funded 2015 operations primarily through cash received from sales and available cash on hand. Management is addressing the debenture debt and the Company will continue to strive to self-fund operations in the coming year. The Company believes that where funding is required to meet cash flow requirements in 2016, it will be raised through sale of (or licensed rights to use) assets, or issue of debt or equity instruments.

	2015 $	2014 $	Variance $
Cash and cash equivalents	1,301,955	3,910,962	(2,609,007)
Restricted cash	250,000	250,000	-
Trade and other receivables	898,166	959,786	(61,620)
Deposits and prepaid expenses	137,861	183,750	(45,889)
Inventory	1,716,313	1,917,249	(200,936)
Trade payables and accrued liabilities	(2,757,707)	(2,129,622)	(628,085)
Unearned revenue	(1,087,197)	(1,484,345)	397,148
Loans and borrowings	(5,840,418)	(572,782)	(5,267,636)
Finance lease obligations	(27,922)	(25,973)	(1,949)
Current tax liabilities	(4,978)	-	(4,978)
Working capital	**(5,413,927)**	**3,009,025**	**(8,422,952)**
Unearned revenue	1,087,197	1,484,345	(397,148)
Customer deposits	1,020,675	790,405	230,270
Modified working capital	**(3,306,055)**	**5,283,775**	**(8,589,830)**

In 2015 warrant and option exercises together with convertible debenture conversions resulted in the Company issuing a total of 1,297,500 shares for total proceeds of $236,000, including:

a) 542,500 warrants were exercised at $0.20 per share for proceeds of $108,500

b) 100,000 options were exercised at $0.25 per share for proceeds of $25,000

c) 500,000 options were exercised at $0.205 per share for proceeds of $102,500

d) 155,000 convertible debentures converted at $0.40 per share

As at April 5, 2016, FLYHT's issued and outstanding share capital was 173,477,635.

The achievement of positive earnings before interest and amortization is necessary before the Company can improve liquidity. The Company has continued to expand its cash flow potential through its continued marketing drive to clients around the world. Management believes that the Company's installation momentum, conversion of installations to recurring revenue, new revenue streams, and ongoing sales will be sufficient to meet standard liquidity requirements going forward. 2015 revenue was a 51.9% increase over 2014 which contributed to a reduced operating loss of $3,213,303; being $130,337 less loss than 2014.

To continue as a going concern, the Company will need to attain profitability and/or obtain additional financing to fund ongoing operations. If:

- general economic conditions in the industry or the financial condition of a major customer deteriorates, or
- sufficient funds are not available to extinguish the debentures coming due in June 2016, or
- sufficient funds are not available, or debenture holders do not convert their debenture units to equity, when the debentures mature in December 2016;

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. 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. These material uncertainties may cast significant doubt upon the Company's ability to continue as a going concern.

Financial Instruments

The Company is exposed to fluctuations in the exchange rates between the Canadian dollar and other currencies with respect to assets, sales, expenses and purchases. The Company monitors fluctuations and may take action if deemed necessary to mitigate its risk.

The Company is exposed to changes in interest rates as a result of the operating loan bearing interest based on the Company's lenders' prime rate. All outstanding debentures have a fixed rate of interest and therefore do not expose the Company's cash flow to interest rate changes.

There is a credit risk associated with accounts receivable where the customer fails to pay invoices. The Company extends credit to credit-worthy or well-established customers. In the case of AFIRS sales the invoiced amount is frequently payable before the product is shipped to the customer. The Company assesses the financial risk of a customer and based on that analysis may require that a deposit payment be made before services are provided. In the case of monthly recurring revenue the Company has the ability to disable the AFIRS unit transmissions where the customer has not fulfilled its financial obligations.

Contractual Obligations

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

December 31, 2015	< 2 months $	2-12 months $	1-2 years $	2-5 years $	> 5 years $	Total $
Accounts payable	1,034,319	2,692	-	-	-	1,037,011
Compensation and statutory deductions	84,525	270,134	108,000	108,000	-	570,659
Finance lease liabilities	4,970	24,849	15,794	-	-	45,613
Accrued liabilities	39,215	61,650	9,715	18,782	-	129,362
Loans and borrowings	-	5,840,418	103,768	414,386	1,212,427	7,570,999
Total	**1,163,029**	**6,199,743**	**237,277**	**541,168**	**1,212,427**	**9,353,644**

Under SADI, the Company has, at December 31, 2015, an outstanding repayable balance of $1,820,816, compared to $1,899,278 at December 31, 2014. 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 will be 24.5% of the total contribution received. The repayment in 2015 was $78,462 (2014: $68,229).

A summary of the SADI loan carrying value as at December 31, 2015 and 2014 and changes during these years is presented below.

	2015 $	2014 $
Balance January 1	899,600	818,828
Interest accretion	163,369	149,001
Repayment	(78,462)	(68,229)
Balance December 31	**984,507**	**899,600**
Less current portion	90,234	78,462
Non-current portion	894,273	821,138

A summary of the SADI outstanding payable balance as at December 31, 2015 and 2014 and changes during these years is presented below.

	2015 $	2014 $
Balance January 1	1,899,278	1,967,507
Repayment	(78,462)	(68,229)
Balance December 31	**1,820,816**	**1,899,278**

The debenture issued December 23, 2010 had an original face value of $3,159,000 and was set to mature on December 23, 2014. On December 22, 2014 approval was received to extend the maturity date of the debentures then remaining outstanding from four to six years, now maturing on December 23, 2016. The debenture continues to bear interest at a rate of 8% per annum, accrued and paid annually in arrears. The debentures were convertible into common shares at a conversion rate of $0.40 per share at any time up to December 23, 2015; on December 15, 2015 the conversion rate was amended to be $0.25 per share at any time up to December 23, 2016 and the warrant exercise price was amended to $0.20. The debentures carry a face value after conversions of $3,039,000 at April 5, 2016.

FLYHT did not enter into any new loan or lease agreements in 2015. Minimum lease payments are as follows.

Year	Total $
2016	29,818
2017	15,795
Total	**45,613**

Customer Deposits

FLYHT's revenue recognition for AFIRS sales and Parts sales occurs in a series of steps. The process begins with the receipt of customer deposits, followed by shipment, installation and finally customer usage of the AFIRS Solution.

Customers are frequently required to pay for AFIRS units and installation kits prior to the planned shipment date. This prepayment is recorded as a customer deposit, which is recognized as an accrued liability upon receipt. When the AFIRS unit and installation kit are shipped, the customer deposit is reclassified to unearned revenue, where it will remain until the AFIRS Solution has been installed and is fully functional, at which point the unearned revenue is recognized as AFIRS sales revenue.

When customers order spare parts or Underfloor Stowage Units and a prepayment is required, it is also recorded as a customer deposit. The Parts sales revenue is recognized when the ordered part or unit is shipped.

Customer deposits are amounts received for AFIRS sales and parts that have not yet been shipped to the customer, and services that have not yet been completed. These deposits are nonrefundable, and are included on the Statement of Financial Position ("SFP") in trade payables and accrued liabilities.

The chart below outlines the movement in the Company's customer deposits throughout the periods ended December 31, 2015 and 2014. Payment was received for 11 installation kits in the fourth quarter of 2015 compared to 9 received in the fourth quarter of 2014, bringing 2015 year-to-date ("YTD") total payments for installation kits to 36, compared to a total of 57 in 2014.

	Q4 2015 $	Q4 2014 $	Variance $	YTD 2015 $	YTD 2014 $	Variance $
Opening balance	524,325	1,070,854	(546,529)	790,405	551,227	239,178
Payments received	1,229,085	744,042	485,043	2,828,055	2,967,089	(139,034)
Moved to unearned revenue	(732,735)	(1,024,491)	291,756	(2,597,785)	(2,727,911)	130,126
Balance, December 31	**1,020,675**	**790,405**	**230,270**	**1,020,675**	**790,405**	**230,270**

Unearned Revenue

The chart below outlines the movement in the Company's unearned revenue throughout the periods ended December 31, 2015 and 2014. Revenue was recognized for 28 installation kits in 2015's fourth quarter compared to 12 in the fourth quarter of 2014. YTD, revenue has been recognized for 58 installation kits in 2015, as compared to 44 in 2014. In 2015, 65.9% of the unearned revenue balance at December 31, 2014 was recognized as earned revenue (2014: 57.1%).

	Q4 2015 $	Q4 2014 $	Variance $	YTD 2015 $	YTD 2014 $	Variance $
Opening balance	1,922,504	1,272,206	650,298	1,675,746	1,103,834	571,912
AFIRS sales shipped, not accepted	732,735	1,024,491	(291,756)	2,597,785	2,727,911	(130,126)
Voice and data services prepaid	19,033	15,960	3,073	19,033	92,084	(73,051)
AFIRS sales revenue recognized	(1,524,940)	(614,411)	(910,529)	(3,131,261)	(2,146,871)	(984,390)
Voice and data services revenue recognized	(3,991)	(22,500)	18,509	(15,962)	(101,212)	85,250
Balance, December 31	**1,145,341**	**1,675,746**	**(530,405)**	**1,145,341**	**1,675,746**	**(530,405)**

Comprehensive Income

Revenue

In the categories listed in the revenue sources chart, **Voice and data services** is the recurring revenue from customers' usage of data they receive from AFIRS and use of functions such as the satellite phone. Usage fees are recognized as the service is provided based on actual customer usage each month. **AFIRS sales** includes the income from AFIRS hardware sales and related parts required to install the. Upon shipment, these amounts are deferred as unearned revenue and corresponding expenses are recorded as work in progress. When the system is fully functional and the customer has accepted the system, the deferred amount is recognized as AFIRS sales revenue and the work in progress as cost of sales. **Parts sales** include the sale of spare AFIRS units, spare installation parts, modems with related manufacturing license fee, and Underfloor Stowage Units. **Services** revenue includes technical services, repairs and expertise the Company offers including the installation of operations control centres.

Revenue sources

	Q4 2015 $	Q4 2014 $	Variance $	YTD 2015 $	YTD 2014 $	Variance $
Voice and data services	1,067,894	915,602	152,292	3,986,813	3,657,300	329,513
AFIRS sales	1,574,559	619,776	954,783	3,372,421	2,054,251	1,318,170
Parts sales	1,123,803	455,297	668,506	2,932,100	718,567	2,213,533
Services	3,011	228,006	(224,995)	165,791	451,910	(286,119)
Total	**3,769,267**	**2,218,681**	**1,550,586**	**10,457,125**	**6,882,028**	**3,575,097**

Overall, total revenue increased 51.9% from $6,882,028 in 2014 to $10,457,125 in 2015. Voice and data services increased by 9.0%, Parts sales increased by 308.0%, AFIRS sales increased by 64.2%, while Services revenue decreased by 63.3%. Revenue in the first, third and fourth quarters were the three highest quarters in FLYHT history.

Voice and data services increased compared to last year, due to a higher number of aircraft producing recurring revenue together with the higher value of the USD. Recurring revenue accounted for 28.3% of revenue in Q4 2015 (Q4 2014: 41.3%), and 38.1% YTD 2015 (YTD 2014: 53.1%). Recurring revenue from FLYHT's existing client base is expected to continue to expand throughout 2016 and future years.

AFIRS sales increased in 2015 as compared to 2014 due to an increased number of installation kits meeting the requirements for revenue recognition. YTD, revenue has been recognized on 58 installation kits, compared to 44 in 2014. Revenue was recognized on 28 installation kits in Q4 2015 compared to 12 in Q4 2014.

Parts sales increased both in the quarter and YTD in 2015 from 2014 as the result of large orders of modems with related license fees throughout 2015.

Services revenue decreased in the quarter and YTD in 2015 compared to 2014 due to a lower number of technical services provided to customers throughout 2015. In 2014 higher revenue was earned on engineering documentation required for our Chinese customers, which was not required in 2015.

Revenue sources for the last eight quarters were:

	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014	Q1 2014
Voice and data services	1,067,894	1,100,238	855,121	963,560	915,602	927,117	893,464	921,116
AFIRS sales	1,574,559	613,229	434,102	750,531	619,776	609,085	447,632	377,758
Parts sales	1,123,803	682,476	285,459	840,362	455,297	148,198	111,720	3,353
Services	3,011	123,404	23,921	15,455	228,006	124,394	52,951	46,559
Total	**3,769,267**	**2,519,347**	**1,598,603**	**2,569,908**	**2,218,681**	**1,808,794**	**1,505,767**	**1,348,786**

Geographical sources of revenue

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

	Q4 2015 $	Q4 2014 $	YTD 2015 $	YTD 2014 $
North America	1,979,070	1,215,724	5,754,913	3,321,408
South/Central America	38,640	67,265	266,203	304,449
Africa/Middle East	586,570	369,309	1,432,230	1,194,644
Europe	251,382	54,078	542,037	317,112
Australasia	215,805	143,922	694,992	658,366
Asia	697,800	368,383	1,766,750	1,086,049
Total	**3,769,267**	**2,218,681**	**10,457,125**	**6,882,028**

	Q4 2015 %	Q4 2014 %	YTD 2015 %	YTD 2014 %
North America	52.5	54.9	55.1	48.2
South/Central America	1.0	3.0	2.5	4.4
Africa/Middle East	15.6	16.6	13.7	17.4
Europe	6.7	2.4	5.2	4.6
Australasia	5.7	6.5	6.6	9.6
Asia	18.5	16.6	16.9	15.8
Total	**100.0**	**100.0**	**100.0**	**100.0**

Gross Profit and Cost of Sales

FLYHT's cost of sales includes the direct costs associated with specific revenue types, including the AFIRS unit, installation kits, training and installation support, as well as associated shipping expenses and travel expenses for the Company's engineering personnel while performing on-site installation support. Installations on aircraft are performed by third parties at the customer's expense. Cost of sales as a percentage of revenue in the fourth quarter of 2015 was 35.6% compared to 38.3% in 2014's fourth quarter. A review of the annual results shows the cost of sales as a percentage of revenue also decreased from 37.1% in 2014 to 30.7% in 2015. The decrease was due to a difference in the mix of revenue sources, as Voice and data services, Parts sales, and Services have higher margins than AFIRS sales. Gross margin will fluctuate quarter over quarter depending on customer needs and revenue mix.

Gross margin for the last eight quarters was:

	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014	Q1 2014
Gross Margin %	64.4	73.3	64.8	75.2	61.7	63.7	59.8	67.4
Cost of Sales %	35.6	26.7	35.2	24.8	38.3	36.3	40.2	32.6

Distribution Expenses (Recovery)

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

Major Category	Q4 2015 $	Q4 2014 $	Variance $	YTD 2015 $	YTD 2014 $	Variance $
Salaries and benefits	598,925	364,083	234,842	1,983,579	1,652,340	331,239
Share based compensation	(1,392)	10,470	(11,862)	91,658	84,971	6,687
Contract labour	204,594	97,574	107,020	829,298	354,320	474,978
Office	112,159	66,654	45,505	328,855	275,427	53,428
Travel	144,210	84,291	59,919	472,078	449,215	22,863
Equipment and maintenance	(5,052)	5,764	(10,816)	40,216	22,180	18,036
Depreciation	9,385	1,733	7,652	29,840	26,910	2,930
Marketing	21,614	12,306	9,308	100,169	55,610	44,559
Other	-	347,775	(347,775)	101,940	472,018	(370,078)
Total	**1,084,443**	**990,650**	**93,793**	**3,977,633**	**3,392,991**	**584,642**

Distribution expenses increased compared to 2014 due mainly to higher people costs offset by the decrease required in FLYHT's bad debt reserve.

Salaries and benefits increased in 2015 as compared to 2014 mainly due to an increase in sales and customer satisfaction staff.

Contract labour increased compared with the same periods last year, consequent on an increase in resources focused on customer deliverables, increased sales representation throughout the later portion of 2014 into 2015, together with recruitment fees paid to seek additional sales staff.

Office expenses increased in 2015 from 2014 mainly as the result of an increased rent allocation combined with increased participation in an industry group.

Travel expenses increased in 2015 versus 2014 largely as the result of increased travel associated with sales and customer satisfaction activities, particularly in the fourth quarter of 2015. Travel expenses vary significantly depending on the location of customer contracts and regions served.

Equipment expenses increased YTD due to the 2015 purchase of equipment used to demonstrate FLYHT's services to prospective customers.

Marketing expense has increased YTD mainly due to the creation in Q1 2015 of a video communicating the FLYHTStream product together with a presence at an industry tradeshow in China in Q2 2015.

Other expenses decreases in both the quarter and YTD are due to a large bad debt reserve taken in Q4 2014 that was not repeated in 2015.

Administration Expenses

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

Major Category	Q4 2015 $	Q4 2014 $	Variance $	YTD 2015 $	YTD 2014 $	Variance $
Salaries and benefits	1,058,602	352,434	706,168	1,972,362	1,468,711	503,651
Share based compensation	37,099	2,022	35,077	276,008	417,278	(141,270)
Contract labour	52,024	60,860	(8,836)	153,594	245,678	(92,084)
Office	61,836	62,895	(1,059)	257,614	276,983	(19,369)
Legal fees	91,212	42,787	48,425	160,360	151,566	8,794
Audit and accounting	24,000	31,500	(7,500)	85,840	141,438	(55,598)
Investor relations	148,810	85,807	63,003	399,619	372,423	27,196
Brokerage, stock exchange, and transfer agent fees	3,601	10,106	(6,505)	59,544	74,066	(14,522)
Travel	60,823	54,140	6,683	211,307	215,660	(4,353)
Equipment and maintenance	11,953	46,270	(34,317)	64,138	98,438	(34,300)
Depreciation	2,304	760	1,544	10,098	15,217	(5,119)
Other	21,532	30,458	(8,926)	26,469	71,060	(44,591)
Total	**1,573,796**	**780,039**	**793,757**	**3,676,953**	**3,548,518**	**128,435**

Administration expenses were higher in 2015 due mainly to people costs for staff retirement and change in key management positions, partially offset by cost savings in several other expense categories.

Salaries and benefits were higher in 2015 compared with 2014, mainly as the result of separation payments for our retiring CEO together with variable compensation as a result of the change in key management positions in Q4 2015 which exceeded the cost of separation included in Q4 2014 for our retiring CFO.

Share based compensation differences in the quarter and YTD were the result of timing and volume differences in share options awarded throughout 2014 and into 2015.

Contract labour decreased compared to 2014 as a result of recruitment fees paid in 2014, along with expenses resulting from increased involvement throughout 2014 in industry groups following the disappearance of Malaysian Airlines flight MH370, which did not recur in 2015.

Office expenses decreased throughout 2015 compared to 2014 mainly as the result of decreased rent with the move to the new office space in Q1 2014 and a change in rent allocation, together with decreased communication costs.

Legal fees increased in the quarter due to employee related services, including international employment law, and treasury matters.

Audit and accounting decreases are mainly due to service adjustments.

Investor relations expense increased due to treasury matters and including costs of the OTCQX listing for the full year in 2015 (listing obtained in June 2014).

Brokerage, stock exchange, and transfer agent fees decreases are the result of a larger number of warrant and option exercises throughout 2014 as compared to 2015.

Equipment and maintenance decreases were the result of one-time purchases of equipment required for the new office premises in 2014.

Other decreases were related to the office move in 2014.

Research, Development and Certification Engineering Expenses (Recovery)

Major Category	Q4 2015 $	Q4 2014 $	Variance $	YTD 2015 $	YTD 2014 $	Variance $
Salaries and benefits	474,014	427,690	46,324	1,964,388	1,874,482	89,906
Share based compensation	(1,635)	-	(1,635)	75,011	86,341	(11,330)
Contract labour	161,206	172,201	(10,995)	595,821	538,874	56,947
Office	30,212	87,376	(57,164)	197,618	288,686	(91,068)
Travel	6,902	11,226	(4,324)	52,143	37,882	14,261
Equipment and maintenance	20,364	39,409	(19,045)	65,038	56,555	8,483
Components	(9,541)	35,708	(45,249)	27,877	52,308	(24,431)
SRED credit	-	(324)	324	(216,708)	(241,677)	24,969
Depreciation	3,310	(561)	3,871	16,936	23,195	(6,259)
Other	4,363	-	4,363	24,428	12,060	12,368
SNC litigation settlement	-	-	-	-	(1,950,957)	1,950,957
Total	**689,195**	**772,725**	**(83,530)**	**2,802,552**	**777,749**	**2,024,803**

Research and Development expense, before the favorable impact in 2014 of the recovery of a provision on settlement of the SNC litigation, was higher in 2015 due mainly to higher people costs, legal and patent fees, and components required for research and development activities.

Salaries and benefits expended in this category increased from 2014 to 2015, partially due to the time committed to increasing revenue sources for ground based server applications, and enhancements made to FLYHTStream in Q1 2015. People costs will fluctuate with customer and industry demands for new products and enhancements of existing products, as well as differences in allocations between Distribution cost centres and R&D.

Contract labour has increased YTD mainly due to certification engineering on a time-sensitive STC in Q1 2015 together with increased software development needs in Q2 2015.

Office expenses decreased as a result of decreased legal fees, as resources similar to those required in 2014 to finalize the settlement with Sierra Nevada Corporation ("SNC") were not required in 2015. Legal fees required to establish and defend patents also decreased from 2014 to 2015.

Travel expenses increased due to increased hardware testing and test flights. Cost of travel varies significantly depending on the location of customers and regions served.

Equipment and maintenance expense decreases in Q4 2015 offset increases earlier in 2015 due to timing on additional software and associated licensing fees required for research and development activities.

Components requirements were lower in 2015 than in 2014 as a lower number of expensed parts were required for use in development and testing activities.

SRED credit YTD variance is due to a decrease in the expenses that qualify for the refundable tax credit under the Canada Revenue Agency Scientific Research and Experimental Development ("SRED") in 2015 compared to 2014. Annual claims will fluctuate based on differences in R&D activities and associated costs.

Other expenses increased due to differences in employee relocation costs between 2014 and 2015.

SNC litigation settlement recovery shown in 2014 was the result of the settlement in Q2 2014 of the dispute with SNC and the release of the related liability accrual.

Net Finance Costs

Major Category	Q4 2015 $	Q4 2014 $	Variance $	YTD 2015 $	YTD 2014 $	Variance $
Interest (income)	-	-	-	(2,128)	(2,000)	(128)
Net foreign exchange (gain) loss	25,721	(137,326)	163,047	(237,247)	(154,265)	(82,982)
Bank service charges	6,352	5,353	999	22,699	21,995	704
Interest expense	821	1,088	(267)	3,917	3,885	32
Government grant accretion	42,628	38,928	3,700	163,368	149,001	14,367
Debenture interest and accretion	204,272	199,937	4,335	711,993	784,404	(72,411)
Debenture cost amortization	2,691	23,777	(21,086)	10,677	88,530	(77,853)
Net finance costs	**282,485**	**131,757**	**150,728**	**673,279**	**891,550**	**(218,271)**

Net foreign exchange gain will vary between periods due to fluctuations in the value of the Canadian dollar in relation to the U.S. dollar. A weakening of the Canadian dollar has given rise to increased foreign exchange gains on U.S. dollar denominated sales and purchases, in combination with fluctuations in U.S. denominated assets and liabilities.

Government grant accretion is the recognition of the effective interest component of the SADI grant.

Debenture interest and accretion decreases are due to the conversion of a portion of the debentures issued in December 2010.

Debenture cost amortization decreases occurred as the costs associated with issuing the convertible debenture in 2010 had been fully amortized when the debenture was extended in December 2015.

Net Loss

Major Category	Q4 2015 $	Q4 2014 $	Variance $	YTD 2015 $	YTD 2014 $	Variance $
Net loss	1,203,998	1,305,712	(101,714)	3,891,560	4,278,885	(387,325)
Net loss without R&D	514,803	532,986	(18,183)	1,089,008	3,501,136	(2,412,128)

The loss for 2015 was $387,325 less than the loss in 2014. If the favorable impact of the onetime recovery of the $1,950,957 provision on settlement of the SNC litigation is excluded from 2014 results, the improvement in 2015 would be $2,338,282 or 37.5%.

Foreign Exchange

All international and a majority of domestic sales of the Company's products and services are denominated in U.S. dollars. Accordingly, the Company is susceptible to foreign exchange fluctuations. In 2015, 98.4% of the Company's gross sales were made in U.S. dollars, compared to 95.5% in 2014. The Company expects this to continue as the aviation industry conducts the majority of its transactions in U.S. dollars, thus limiting the opportunity for sales in Canadian dollars or other major currencies. The Company also contracts in U.S. dollars for certain services and products related to cost of sales, which creates a natural hedge.

Other

Recent Accounting Pronouncements

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 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 may affect the amount and/or 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, 2017).

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 consolidated annual financial statements.

Risks and Uncertainties

FLYHT operates in the aviation industry and part of the business involves risks and uncertainties. The Company takes steps to manage these risks, though it is important to identify risks that could have a material effect on business or results of operations. Such risks are listed below; the areas defined are not inclusive.

Installations at c-checks

The Company's products, AFIRS 220 and 228, can take approximately 200 person-hours or more to install on an aircraft, depending on the aircraft type and crew. As the box needs a longer period to be installed, the installation is usually scheduled when the aircraft is undergoing its routine c-check or scheduled maintenance. The timing of c-checks depends on how many segments the aircraft has flown and is based on the manufacturer's guidelines; it can take as long as two or three years before an aircraft is out of service for an extended period. Waiting for a c-check for AFIRS installation is a risk to the Company because it results in a delay in initial revenue from the sale of the box and the Company does not receive recurring revenue connected with the monthly service offerings until the device is installed and running.

The Company takes steps to mitigate this risk by encouraging customers to install AFIRS at their aircraft's earliest availability and works with them to provide the box at the right time for installation, preferably while the aircraft is down for normal service. The goal is to reduce aircraft downtime and save the customer as much money as possible. Another risk mitigation tool used by the Company is to offer special discounts to airlines that pay for all units up front. This discount decreases FLYHT's gross margin slightly, but allows the Company to bring in cash immediately after signing an agreement. As well, the terms of the Company's standard agreement states that payment is due a minimum of 90 days prior to the shipment of kits.

Foreign currency fluctuations

The Company does a majority of its business in U.S. dollars so there is a risk of currency fluctuation. The major portion of the operating and overhead costs are denominated in Canadian dollars, though certain payroll costs and a significant portion of costs of goods sold, marketing and distribution costs are U.S. dollar denominated, and therefore create a natural hedge against fluctuations of the Canadian dollar.

General economic and financial market conditions

In an industry, such as the aviation industry, finances are tied to global trends and patterns. As an airline's spending is tied to their income, they may be unwilling or unable to spend money, particularly on a value-added product such as AFIRS.

In order to address this risk, the sales team has developed a number of strategies. One is a global sales presence. FLYHT has established sales agents on every continent. While some economies of the world may be in a slump or downturn, there is a place for FLYHT in growing markets. FLYHT also demonstrates to potential customers the impressive return on investment model, how quickly potential customers can improve operational efficiency, and ultimately how much AFIRS will save them in operating cost.

Dependence on key personnel and consultants

FLYHT's ability to maintain its competency in the industry is dependent on maintaining a specialty skilled workforce. The Company's DAO status, delegated by TCCA, enables a smooth implementation of STCs, required to install AFIRS on aircraft. Key staff with TCCA delegation status enable the Company to complete STCs in a timely and cost efficient manner. The Company has worked over the past few years to distribute the specified knowledge among a number of key individuals. This reduces risk and ensures the Company can still function effectively were it to lose specialized staff.

Dependence on new products

Over the past few years, the Company has been in the R&D stage of its next generation product, AFIRS 228. FLYHT is confident the product fills a gap in the industry, as evidenced by sales of the AFIRS 228 throughout 2013, 2014 and 2015. Through 2014 and 2015 FLYHT was working to increase certification of the 228 from an 'E' to a 'D' level certification at the request of customers; the certification was received during Q4 2015 and is expected to increase the market for the Company's product. FLYHT released the Dragon in the Fall of 2013, expanding into the sector within the industry that required a portable satellite communications device to meet general aviation operators' need for increased connectivity. Late in 2015 the Dragon was identified as falling outside of FLYHT's core competency and the Company may look to divest the product line during 2016. The Company's success will ultimately depend on the success of its products, and future enhancements made to same.

Need to consider inserting FLYHTStream/fuel/etc type items

Availability of key supplies

FLYHT produces and builds all AFIRS 220 units in-house, while AFIRS 228 units are built by a contract manufacturer. The Company relies on partners, suppliers and special parts to complete unit builds. Certain parts can be delayed in shipping or availability, which can cause a delay in building the AFIRS 220 or in receiving AFIRS 228 completed units. FLYHT aims to avoid the risk of not having the necessary supplies by managing inventories and storing extra key parts. The contract manufacturer is a global supplier with the ability to meet FLYHT's requirements. Additionally, the Company maintains close communication with its partners and suppliers to ensure all key components for the AFIRS units will be available into the future.

Proprietary protection

Patent rights are extremely important to the continuation of the Company because the AFIRS technology is the Company's primary revenue source. The Company relies on contract, copyright and trademark laws and has received patents from the United States, Chinese, Turkish and European patent offices. These patents are generally respected in other international jurisdictions as well. The risks involved with proprietary protection lie in other companies infringing on FLYHT patents or claiming patent infringement by FLYHT, though the Company has defended patent claims in court and been successful. FLYHT conducted due diligence on its technology and the conditions of its patent before applying and maintains that it holds unique characteristics from other technologies in the marketplace and does not infringe on the rights of any third parties.

Transactions with Related Parties

a) Throughout 2014, the Company engaged in transactions with a company owned by a former director to supply consulting services in promoting the Company's product as a preferred solution for enhanced aircraft tracking and triggered data transmission. No similar services were contracted during 2015.

b) In the third and fourth quarters of 2015, the Company entered into an agreement with a company with ownership related to an officer of FLYHT. The company supplied consulting services in recruitment and supplied a contract resource to develop tools used to enhance the Company's ground based software.

Included in contract labour for the periods ended December 31:

	For the three months		For the year	
	2015 $	2014 $	2015 $	2014 $
(a)	-	5,621	-	74,418
(b)	30,114	-	41,114	-
Total	**30,114**	**5,621**	**41,114**	**74,418**

Included in accounts payable and accrued liabilities as at December 31:

	2015 $	2014 $
(a)	-	-
(b)	30,114	-
Total	**30,114**	-

All of the transactions with the related parties were at exchange amounts that approximated fair value. All other transactions with related parties were normal business transactions related to employee and director positions within the Company. These transactions included expense reimbursements for business travel and expenses paid by the related party, and were measured at exchange amounts paid to a third party as substantiated with a third party receipt.

Contingency

Subsequent to year end FLYHT received a claim from a partner totaling $0.8 million USD for past and potential future warranty claims relating to reliability of some active AFIRS units. The claim asserts a design defect has led to the reliability issues. The resolution of the claim is pending review. The result of the claim is currently unknown and will be resolved with the partner.

Subsequent event

On December 21, 2015 the Company granted a non-exclusive license to use certain of its intellectual property to a technology company for an aggregate license fee of $2.5 million USD, payable in the first quarter of 2016. Payment for this license has been delayed until the second quarter of 2016.

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 statements of financial position as at December 31, 2015 and December 31, 2014, the consolidated statements of comprehensive income (loss), changes in equity (deficiency) 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 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, 2015 and December 31, 2014, 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. has a net loss and negative cash flows from operating activities for the year ended December 31, 2015 and is dependent upon obtaining 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.

KPMG LLP

Chartered Professional Accountants

April 5, 2016

Calgary, Canada

Consolidated Statement of Financial Position

	December 31, 2015 $	December 31, 2014 $
Assets		
Current assets		
Cash and cash equivalents (note 6)	1,301,955	3,910,962
Restricted cash (note 13)	250,000	250,000
Trade and other receivables (note 7)	898,166	959,786
Deposits and prepaid expenses	137,861	183,750
Inventory (note 8)	1,716,313	1,917,249
Total current assets	4,304,295	7,221,747
Non-current assets		
Property and equipment (note 9)	202,775	217,186
Intangible assets (note 10)	34,992	34,992
Inventory (note 8)	936,805	801,621
Total non-current assets	1,174,572	1,053,799
Total assets	5,478,867	8,275,546
Liabilities		
Current liabilities		
Trade payables and accrued liabilities (note 11)	2,757,707	2,129,622
Unearned revenue (note 12)	1,087,197	1,484,345
Loans and borrowings (note 13)	5,840,418	572,782
Finance lease obligations	27,922	25,973
Current tax liabilities (note 25)	4,978	-
Total current liabilities	9,718,222	4,212,722
Non-current liabilities		
Unearned revenue (note 12)	58,144	191,401
Loans and borrowings (note 13)	374,555	5,462,701
Finance lease obligations	15,555	43,478
Provisions (note 15)	263,596	235,019
Total non-current liabilities	711,850	5,932,599
Total liabilities	10,430,072	10,145,321
Equity (deficiency)		
Share capital (note 16)	53,895,046	53,496,969
Convertible debenture – equity feature (note 13)	222,531	220,700
Warrants (note 16)	-	163,771
Contributed surplus	8,439,136	7,865,143
Deficit	(67,507,918)	(63,616,358)
Total (deficiency)	(4,951,205)	(1,869,775)
Total liabilities and deficit	5,478,867	8,275,546

See accompanying notes to consolidated financial statements. Going concern (note 2d). Contingencies (note 28)





On behalf of the board Director – Bill Tempany Director – Paul Takalo

Consolidated Statement of Comprehensive Income (Loss)

	For the year ended December 31	
	2015 $	2014 $
Revenue (note 18)	10,457,125	6,882,028
Cost of sales	3,213,290	2,550,051
Gross profit	7,243,835	4,331,977
Distribution expenses (note 21)	3,977,633	3,392,991
Administration expenses (note 22)	3,676,953	3,548,518
Research, development and certification engineering expenses (note 23)	2,802,552	777,749
Results from operating activities	(3,213,303)	(3,387,281)
Finance (income) (note 24)	(239,375)	(156,265)
Finance costs (note 24)	912,654	1,047,815
Net finance costs	(673,279)	(891,550)
Loss before income tax	(3,886,582)	(4,278,831)
Income tax expense (note 25)	4,978	54
Loss for the period	(3,891,560)	(4,278,885)
Total comprehensive loss for the period	(3,891,560)	(4,278,885)
Loss per share		
Basic and diluted loss per share (note 17)	(0.02)	(0.03)

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Equity (Deficiency)

For the years ended December 31, 2015 and 2014

	Share Capital $	Convertible Debenture $	Warrants $	Contributed Surplus $	Deficit $	Total Equity (Deficit) $
Balance at December 31, 2014	53,496,969	220,700	163,771	7,865,143	(63,616,358)	(1,869,775)
Loss for the period	-	-	-	-	(3,891,560)	(3,891,560)
Total comprehensive loss for the period	-	-	-	-	(3,891,560)	(3,891,560)
Contributions by and distributions to owners						
Issue of common shares	62,000	1,831	-	(86,378)	-	(22,547)
Issue of warrants	-	-	154,001	-	-	154,001
Share-based payment transactions	-	-	-	442,676	-	442,676
Share options exercised	183,920	-	-	(56,420)	-	127,500
Warrants exercised	152,157	-	(43,657)	-	-	108,500
Warrants expired	-	-	(274,115)	274,115	-	-
Total contributions by and distributions to owners	398,077	1,831	(163,771)	573,993	-	810,130
Balance at December 31, 2015	53,895,046	222,531	-	8,439,136	(67,507,918)	(4,951,205)
Balance at December 31, 2013	48,318,003	231,318	1,057,652	7,458,093	(59,337,473)	(2,272,407)
Loss for the period	-	-	-	-	(4,278,885)	(4,278,885)
Total comprehensive loss for the period	-	-	-	-	(4,278,885)	(4,278,885)
Contributions by and distributions to owners						
Issue of common shares	58,000	(10,618)	-	93,531	-	140,913
Share-based payment transactions	-	-	-	588,589	-	588,589
Share options exercised	1,008,573	-	-	(314,948)	-	693,625
Warrants exercised	4,112,393	-	(854,003)	-	-	3,258,390
Warrants expired	-	-	(39,878)	39,878	-	-
Total contributions by and distributions to owners	5,178,966	(10,618)	(893,881)	407,050	-	4,681,517
Balance at December 31, 2014	53,496,969	220,700	163,771	7,865,143	(63,616,358)	(1,869,775)

See accompanying notes to consolidated financial statements.

Consolidated Statement of Cash Flows

	For the year ended December 31	
	2015	2014
Cash flows used in operating activities	**$**	**$**
Loss for the period	(3,891,560)	(4,278,885)
Depreciation – property plant and equipment	56,873	65,322
Convertible debenture accretion	711,993	784,404
Payment of debenture interest	(496,633)	(502,487)
Amortization of debenture issue costs	10,677	88,530
Government grant accretion	163,368	149,001
Equity-settled share-based payment transactions	442,676	588,589
Change in inventories	65,752	(874,377)
Change in trade and other receivables	17,969	(195,614)
Change in prepayments	45,889	(38,195)
Change in trade and other payables	605,257	(1,486,537)
Change in provisions	28,577	86,591
Change in unearned revenue	(530,405)	571,912
Unrealized foreign exchange	(218,991)	(212,393)
Interest expense	3,917	3,885
Interest paid	(3,917)	(3,885)
Income tax expense	4,978	54
Income tax paid	-	(950)
Net cash used in operating activities	(2,983,580)	(5,255,035)
Cash used in investing activities		
Acquisitions of property and equipment	(42,462)	(10,236)
Interest income	(2,128)	(2,000)
Interest received	2,128	2,000
Net cash used in investing activities	(42,462)	(10,236)
Cash flows from financing activities		
Proceeds from issue and exercise of share options and warrants	236,000	3,952,015
Repayment of borrowings	(78,462)	(80,592)
Payment of finance lease liabilities	(25,974)	(24,300)
Net cash from financing activities	131,564	3,847,123
Net (decrease) in cash and cash equivalents	(2,894,478)	(1,418,148)
Cash and cash equivalents, beginning	3,910,962	5,184,803
Effect of exchange rate fluctuations on cash held	285,471	144,307
Cash and cash equivalents, ending	1,301,955	3,910,962

See accompanying notes to 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, 2015 and 2014 consist of the Company and its subsidiaries.

FLYHT is a designer and developer of products and software for, and a service provider to, the global aerospace industry. The Company supports aviation customers in different sectors including commercial, business, leasing and military operators. FLYHT's headquarters are located in Calgary, Canada with sales representation in the United States, China, and the United Kingdom.

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 5, 2016.

(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

These 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, 2015, the Company had negative working capital of $5,413,927, a deficit of $67,507,918, a net loss of $3,891,560 and negative cash flow used in operating activities of $2,983,580 for the year.

The Company has incurred significant operating losses and negative cash flows from operations over the past years. The achievement of positive earnings before interest and amortization is necessary before the Company can improve liquidity. The Company has continued to expand its cash flow potential through its continued marketing drive to clients around the world. Management believes that the Company's installation momentum, conversion of installations to recurring revenue, new revenue streams, and ongoing sales will be sufficient to meet standard liquidity requirements going forward.

To continue as a going concern, the Company will need to attain profitability and/or obtain additional financing to fund ongoing operations. If:

- general economic conditions in the industry or the financial condition of a major customer deteriorates, or
- sufficient funds are not available to extinguish the debentures coming due in June 2016, or
- sufficient funds are not available, or debenture holders do not convert their debenture units to equity, when the debentures mature in December 2016;

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. 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. 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.

2. Basis of preparation (Continued)

(e) Critical 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 critical accounting policies, 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, 2015, no deferred tax assets were recognized.

3. The Company records amounts for warranty based on historical warranty data. A provision is recognized upon shipment of the underlying products.

4. Consideration received for installation kits is deferred as unearned revenue and corresponding expenses are recorded as work in progress until the system is fully functional and customer acceptance has been obtained, at which time the full deferred amount is recognized in revenue along with the work in progress as cost of sales. Revenue from Voice and data services is recognized at the end of each month and is based on actual usage during that month.

5. Revenue from the sale of Dragons, Underfloor Stowage Units and other parts is recognized when the unit is shipped, title is transferred, and collection is reasonably assured. Certain customers have prepaid for products or services not yet delivered. These amounts are included in trade payables and accrued liabilities on the Statement of Financial Position, and are recorded as revenue in the period in which such products or services are delivered.

6. Technical services are provided based upon orders and contracts with customers that include fixed or determinable prices that are based upon daily, hourly or contracted rates. Revenue is recognized as services are rendered and when collectability is reasonably assured.

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

For acquisitions of businesses, the Company measures goodwill as the fair value of the consideration transferred including the recognized amount of any non-controlling interest in the acquiree, less the net recognized amount (fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Company incurs in connection with a business combination will be expensed as incurred.

(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. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Company.

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.

3. Significant accounting policies (Continued)

(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 debt securities issued and subordinated 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: debentures, 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.

3. Significant accounting policies (Continued)

(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.

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 component costs plus a standard labour allocation. The weighted average cost method is used for components, while the labour component allocated to each unit is valued using a standard cost.

Installations-in-progress includes product costs, and other direct project costs. When the system is fully functional, the installations-in-progress balance is recognized as cost of sales to correspond with the full unearned revenue amount then recognized as revenue.

The production of Underfloor Stowage Units and Dragons is outsourced and the weighted average cost method is used.

(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 calculated to write-off assets over their estimated useful lives since this 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.

The depreciation rates are as follows:

Computers	30% declining balance
Software	12 months straight line
Equipment	20% declining balance
Leasehold improvements	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.

3. Significant accounting policies (Continued)

(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.

(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.

3. Significant accounting policies (Continued)

(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 during the term of each agreement. Also, FLYHT warrants that it will deliver all data services required by the customer accurately and on-time. A provision 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.

3. Significant accounting policies (Continued)

(ii) Non-financial assets (Continued)

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

AFIRS fees from service agreements are deferred as revenue and corresponding expenses are recorded as an asset (installations in progress). Once the system (including the AFIRS unit and installation kit) is fully functional and accepted by the customer, the full deferred amount is recognized in revenue along with the installations in progress as cost of sales. Revenue from the sale of Dragons is recognized when the unit is shipped, title is transferred, and collection is reasonably assured.

(ii) Voice and data services

Revenue from Voice and data services is recognized at the end of each month and is based on actual usage during that month.

(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 persuasive evidence exists, usually in the form of an executed sales agreement, that 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 Underfloor Stowage Units is recognized when the unit is shipped, title is transferred, 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 paid for the use of FLYHT's assets (i.e., trademarks, patents, and software) are recognized on an accrual basis.

(m) Employee benefits

(i) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

The Company follows accrual accounting for wages, salaries, commissions and variable compensation payments. The commission policy outlines how commissions are calculated and when payment is made to employees.

(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 expiry.

3. Significant accounting policies (Continued)

(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 are issued to the agents as consideration for their services.

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.

(o) Finance income and finance costs

Finance income comprises interest income which is recognized as it accrues in profit or loss, using the effective interest method. The Company earns income on its cash and cash equivalents (bank deposits) and its restricted cash (Guaranteed Investment Certificates).

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.

Foreign currency gains and losses are reported on a net basis, as either finance income or finance costs.

(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.

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.

3. Significant accounting policies (Continued)

(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 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 may affect the amount and/or 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, 2017).

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 consolidated annual 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.

(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 debenture, the market rate of interest is determined by reference to similar liabilities that do not have a conversion feature. In respect of the convertible debentures and the debentures, as there has been no material change in the Company's market rate subsequent to the issuance dates, carrying value approximates fair value; and

(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, 2015	December 31, 2014
	$	$
Trade receivables	874,112	944,835
Non-trade receivables and accrued receivables	24,054	14,951
Total	898,166	959,786

Non-trade receivables consist of earned interest income receivable, input tax credits, and government grants receivable. The Company's exposure to credit and currency risks is disclosed in note 26.

8. Inventory

	December 31, 2015	December 31, 2014
	$	$
AFIRS raw materials	946,082	951,269
AFIRS finished goods	1,047,415	752,333
Installations in progress	659,621	1,015,268
Balance	2,653,118	2,718,870
Less current portion	(1,716,313)	(1,917,249)
Non-current portion	936,805	801,621

In 2015, AFIRS raw materials and changes in AFIRS finished goods units and installations in progress recognized as cost of sales amounted to $2,289,676 (2014: $1,521,962). Included in this amount was a write down of inventories amounting to $66,196 in 2015 (2014: $203,618) resulting from a review of slow moving inventory parts. All inventories are pledged as security for the bank loan and debentures.

9. Property and equipment

2015	Computers and Software $	Equipment $	Leasehold improvements $	Total $
Cost				
Balance at January 1	491,800	242,019	44,121	777,940
Additions	19,111	23,351	-	42,462
Balance at December 31	510,911	265,370	44,121	820,402
Accumulated Depreciation				
Balance at January 1	385,118	169,570	6,066	560,754
Depreciation for the year	35,261	15,309	6,303	56,873
Balance at December 31	420,379	184,879	12,369	617,627
Carrying Amounts				
At January 1	106,682	72,449	38,055	217,186
At December 31	90,532	80,491	31,752	202,775

2014	Computers and Software $	Equipment $	Leasehold improvements $	Total $
Cost				
Balance at January 1	898,919	230,297	166,972	1,296,188
Additions	73,523	36,722	10,000	120,245
Disposals	(480,642)	(25,000)	(132,851)	(638,493)
Balance at December 31	491,800	242,019	44,121	777,940
Accumulated Depreciation				
Balance at January 1	803,805	172,021	128,667	1,104,493
Depreciation for the year	36,088	18,984	10,250	65,322
Disposals	(454,775)	(21,435)	(132,851)	(609,061)
Balance at December 31	385,118	169,570	6,066	560,754
Carrying Amounts				
At January 1	95,114	58,276	38,305	191,695
At December 31	106,682	72,449	38,055	217,186

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, 2015, the net carrying amount of leased property and equipment was $52,704 (2014: $89,612).

As of December 31, 2015, all property and equipment is pledged as security for the bank loan and debentures (note 13).

FLYHT did not enter into any new lease agreements in 2015.

10. Intangible assets

The intangible asset balance of $34,992 at December 31, 2015 (December 31, 2014: $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 forsees no end to that relationship.

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

11. Trade payables and accrued liabilities

	December 31, 2015	December 31, 2014
	$	$
Trade payables	1,037,011	650,712
Non-refundable customer deposits	1,020,675	790,405
Compensation and statutory deductions	570,659	516,881
Accrued liabilities	129,362	171,624
Total	2,757,707	2,129,622

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

12. Unearned revenue

Unearned revenue classified as current consists of sales type agreements revenue that will be recognized when the AFIRS Solution is fully functional and expected to be recognized as income in the next year.

All amounts recorded in unearned revenue are non-refundable.

	December 31, 2015	December 31, 2014
	$	$
Balance January 1	1,675,746	1,103,834
AFIRS sales: shipped	2,597,785	2,727,911
AFIRS sales: revenue recognized	(3,131,261)	(2,146,871)
Voice and data services: prepaid	19,033	92,084
Voice and data services: revenue recognized	(15,962)	(101,212)
Balance December 31	1,145,341	1,675,746
Less current portion	1,087,197	1,484,345
Non-current portion	58,144	191,401

13. Loans and borrowings

Bank loan

The Company currently has no bank debt and has available to it an operating demand loan up to a maximum of $250,000 (2014: $250,000). The operating loan bears interest at Canadian chartered bank prime plus 1.5%. The operating demand loan is secured by an assignment of cash collateral in the amount of $250,000 and a general security agreement including a first ranking security interest in all personal property. The amount of the cash collateral has been disclosed as restricted cash. As at December 31, 2015 and 2014, the facility had not been drawn.

Government loans

The Technology Partnerships Canada ("TPC") loan was non-interest bearing and unsecured. The loan was repayable annually, based on 15% of the initial contribution when the Company achieved more than 10% growth in gross revenues above the previous year's gross revenue and the gross revenue for the year is greater than the base amount. The base amount is defined as the Company's gross revenue in fiscal 2004, which was at $556,127. The obligation under TPC was fulfilled in 2015.

Under SADI, the Company has, at December 31, 2015, an outstanding repayable balance of $1,820,816, compared to $1,967,507 at December 31, 2014. 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 SADI loan carrying value as at December 31, 2015 and 2014 and changes during these years is presented below.

	2015 $	2014 $
Balance January 1	899,600	818,828
Interest accretion	163,369	149,001
Repayment	(78,462)	(68,229)
Balance December 31	984,507	899,600
Less current portion	90,234	78,462
Non-current portion	894,273	821,138

A summary of the SADI outstanding payable balance as at December 31, 2015 and 2014 and changes during these years is presented below.

	2015 $	2014 $
Balance January 1	1,899,278	1,967,507
Repayment	(78,462)	(68,229)
Balance December 31	1,820,816	1,899,278

Convertible debentures

The debenture issued December 23, 2010 originally had a face value of $3,159,000 and was set to mature on December 23, 2014. The fair value of the conversion feature was determined at the time of issue as the difference between the principal value of the debentures and the discounted cash flows assuming an 18% rate. The conversion feature was classified as equity and had an original value of $231,318 based on an exercise price of $0.40. The associated debenture warrants had an exercise price of $0.75, were exercisable by December 23, 2014, and had an original carrying value of $163,771.

On December 22, 2014 approval was received to extend the maturity date of the debenture from four to six years. The debentures were convertible into common shares at a conversion rate of $0.40 per share at any time up to December 23, 2015. The associated debenture warrants were also extended to December 23, 2015.

On December 15, 2015 approval was received to lower the warrant exercise price to $0.20, extend the conversion feature to December 23, 2016, and lower the conversion price to $0.25.

13. Loans and borrowings (Continued)

Convertible debentures (Continued)

The debenture has a face value of $3,039,000 as at December 31, 2015 (December 31, 2014: $3,101,000). The conversion feature has a carrying value of $222,531 as at December 31, 2015 (December 31, 2014: $220,700). The debenture warrants have a carrying value of nil as at December 31, 2015 (December 31, 2014: $163,771), as they expired on December 23, 2015.

The debentures are secured against all personal property of the Company, with the exception of the Company's intellectual property, and are subordinated in right of payment to all existing and future bank and/or governmental indebtedness of the Company. If the debentures are converted to shares, a portion of the value of the conversion feature recognized in shareholders' equity will be classified to share capital along with the conversion price paid. The debenture continues to bear interest at a rate of 8% per annum, accrued and paid annually in arrears commencing December 31, 2011.

Redeemable debentures

In two tranches on April 18 and May 28, 2013, the Company issued an aggregate $2,110,000 of debentures in a debt offering. The debentures mature on June 30, 2016 and bear interest at a rate of 12% per annum on the contributed amounts, which shall be accrued and paid annually in arrears commencing December 1, 2013. Purchasers of debentures received a capital discount premium of 10% on the financing, meaning that for every $1.00 debenture acquired, FLYHT shall owe, on the maturity date, principal equal to $1.10 to the debenture holder. The purchasers of the debentures were also issued one common share of the Corporation for every $1.00 principal amount of debentures acquired pursuant to the offering. A total of 2,110,000 common shares were issued under these tranches. All of the securities issued thereunder were subject to a 4-month hold period. The debentures are not listed on any stock exchange and are not convertible into common shares. The debentures are secured against all personal property of FLYHT, including FLYHT's intellectual property and are subordinated in right of payment to all existing and future secured bank and/or governmental indebtedness of FLYHT and any existing security already registered against FLYHT's assets. The fair value of the debenture was determined at the time of issue as the difference between the principal value of the debentures and the discounted cash flows assuming an 18% rate.

	2015 $	2014 $
TPC	-	-
SADI	984,507	899,601
Debenture payable	2,269,545	2,128,842
Convertible debenture payable	2,960,921	3,007,040
Balance December	6,214,973	6,035,483
Less current portion	(5,840,418)	(572,782)
Non-current portion	374,555	5,462,701

14. Operating leases

Operating lease rentals are payable as follows:

	2016	2017	2018	2019	2020	2021	Total
Premises $	410,750	433,419	437,952	437,952	437,952	72,992	2,231,017

15. Provisions

Product warranty - non-current provision	2015 $	2014 $
Balance January 1	235,019	148,428
Provision made during the period	72,735	157,942
Provision used during the period	(44,158)	(71,351)
Balance December 31	263,596	235,019

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

16. Capital and other components of equity

Share capital

Authorized:

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

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

Issued and outstanding:

Common shares:	Number of Shares	Value $
Balance January 1, 2014	158,817,268	48,318,003
Exercise of employee options	2,774,500	1,008,573
Exercise of warrants	10,443,367	4,112,393
Debenture conversions	145,000	58,000
Balance December 31, 2014	172,180,135	53,496,969
Exercise of employee options	600,000	183,920
Exercise of warrants	542,500	152,157
Debenture conversions	155,000	62,000
Balance December 31, 2015	173,477,635	53,895,046

In 2015 warrant and option exercises together with convertible debenture conversions resulted in the Company issuing a total of 1,297,500 shares for total proceeds of $236,000, including:

e) 542,500 warrants were exercised at $0.20 per share for proceeds of $108,500

f) 100,000 options were exercised at $0.25 per share for proceeds of $25,000

g) 500,000 options were exercised at $0.205 per share for proceeds of $102,500

h) 155,000 convertible debentures were converted at $0.40 per share

16. Capital and other components of equity (Continued)

Stock option plan

The Company grants stock options to its directors, officers, employees and consultants.

In the second quarter of 2015 the Company granted 2,803,050 stock options to employees, officers and directors under the stock option plan. The stock options will expire December 31, 2018, and have an exercise price of $0.25 per share.

In the third quarter of 2015 the Company granted a total of 475,000 stock options to one officer and two employees under the stock option plan. The stock options will expire December 31, 2018 and have an exercise price of $0.165 per share.

In the fourth quarter of 2015 the Company granted a total of 500,000 options exercisable at a price of $0.205 per share to an officer of the Company under the stock option plan. 100,000 of the stock options expired on December 31, 2015 with 100,000 additional stock options expiring on December 31 of each subsequent year (the last 100,000 stock options expiring on December 31, 2019).

The Company has a policy of reserving up to 10% of the outstanding common shares for issuance to eligible participants. As at December 31, 2015, there were 17,347,764 (2014: 17,218,014) common shares reserved for this purpose.

All outstanding options vested immediately at the grant date and were granted at an exercise price not less than fair market value of the stock on the date of issuance. No options remained unvested as at December 31, 2015 and 2014.

A summary of the Company's outstanding and exercisable stock options as at December 31, 2015 and 2014 and changes during these years is presented below.

	2015		2014	
	Number of options	Weighted average exercise price $	Number of options	Weighted average exercise price $
Outstanding, January 1	7,802,250	0.34	7,472,500	0.27
Options granted	3,778,050	0.23	3,230,750	0.41
Options exercised	(600,000)	0.23	(2,774,500)	0.25
Options expired	(2,244,000)	0.27	(126,500)	0.30
Outstanding, December 31	8,736,300	0.32	7,802,250	0.34
Exercisable, December 31	8,736,300	0.32	7,802,250	0.34

Weighted average life remaining for the options outstanding and exercisable is 2.0 years. The exercise prices for options outstanding at December 31, 2015 were as follows:

	All options		Exercisable options	
Exercise price:	Number	Weighted average remaining contractual life (years)	Number	Weighted average remaining contractual life (years)
$0.165	475,000	3.0	475,000	3.0
$0.250	1,807,500	1.0	1,807,500	1.0
$0.250	2,716,050	3.0	2,716,050	3.0
$0.400	2,337,750	2.0	2,337,750	2.0
$0.420	50,000	2.0	50,000	2.0
$0.450	1,200,000	1.0	1,200,000	1.0
$0.530	150,000	2.0	150,000	2.0
Total	8,736,300	2.0	8,736,300	2.0

16. Capital and other components of equity (Continued)

The weighted average fair value of the options granted during the year that were valued using the Black-Scholes option pricing model was $0.12 (2014: $0.20). The fair value of the options granted and valued using the Black-Scholes option pricing model were valued with the following weighted average assumptions:

	2015	2014
Risk-free interest rate	0.75%	1.48%
Expected life (years)	3.37	3.69
Volatility in the price of the Company's common shares	76%	74%
Dividend yield rate	0.00%	0.00%

Warrants

	Number	Weighted average exercise price	Value
		$	$
Outstanding January 1, 2014	14,711,867	0.23	1,057,652
Warrants exercised	(10,443,367)	0.31	(854,003)
Warrants expired	(319,750)	0.30	(39,878)
Outstanding December 31, 2014	3,948,750	0.75	163,771
Warrants extended	-	-	154,001
Warrants exercised	(542,500)	0.20	(43,657)
Warrants expired	(3,406,250)	0.20	(274,115)
Outstanding December 31, 2015	-	-	-

17. Earnings per share

Basic earnings per share

The calculation of basic and diluted earnings per share for the year ended December 31, 2015 was based on a weighted average number of common shares outstanding of 172,423,488 (2014: 166,441,119). The calculation of diluted earnings per share did not include stock options of 8,736,300 (2014: 7,802,250), nil warrants (2014: 3,948,750) and convertible debentures of 7,597,500 (2014: 7,390,000) because they would be anti-dilutive.

18. Revenue

	2015	2014
	$	$
Voice and data services	3,986,813	3,657,300
AFIRS sales	3,372,421	2,054,251
Parts sales	2,932,100	718,567
Services	165,791	451,910
Total	10,457,125	6,882,028

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, L-3 AR revenue and Underfloor Stowage Units. Services include technical, repair and installation support services.

19. Operating segments

The Company has one operating segment.

Geographical Information

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

	2015 $	2014 $
North America	5,754,913	3,321,408
South / Central America	266,203	304,449
Africa / Middle East	1,432,230	1,194,644
Europe	542,037	317,112
Australasia	694,992	658,366
Asia	1,766,750	1,086,049
Total	10,457,125	6,882,028

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

Major customers

Revenues from the three largest customers represent approximately 42.9% of the Company's total revenues for the year ended December 31, 2015 (2014: 30.9%).

21. Distribution expenses

	2015 $	2014 $
Salaries and benefits	1,983,579	1,652,340
Stock based compensation	91,658	84,971
Contract labour	829,298	354,320
Office	328,855	275,427
Travel	472,078	449,215
Equipment & maintenance	40,216	22,180
Depreciation	29,840	26,910
Marketing	100,169	55,610
Other	101,940	472,018
Total	3,977,633	3,392,991

22. Administration expenses

	2015 $	2014 $
Salaries and benefits	1,972,362	,468,711
Stock based compensation	276,008	417,278
Contract labour	153,594	245,678
Office	257,614	276,983
Legal fees	160,360	151,566
Audit and accounting	85,840	141,438
Investor relations	399,619	372,423
Brokerage, stock exchange, and transfer agent fees	59,544	74,066
Travel	211,307	215,660
Equipment and maintenance	64,138	98,438
Depreciation	10,098	15,217
Other	26,469	71,060
Total	3,676,953	3,548,518

23. Research and development expenses

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

	2015 $	2014 $
Salaries and benefits	1,964,388	1,874,482
Stock based compensation	75,011	86,341
Contract labour	595,821	538,874
Office	197,618	288,686
Travel	52,143	37,882
Equipment and maintenance	65,038	56,555
Components	27,877	52,308
SRED tax credit	(216,708)	(241,677)
Depreciation	16,936	23,195
Other	24,428	12,060
SNC litigation settlement	-	(1,950,957)
Total	2,802,552	777,749

24. Finance income and finance costs

	2015 $	2014 $
Interest income on bank deposits	2,128	2,000
Net foreign exchange gain	237,247	154,265
Finance income	239,375	156,265
Bank service charges	22,699	21,995
Interest expense	3,917	3,885
Government grant interest expense	163,368	149,001
Debenture interest expense and accretion	711,993	784,404
Debenture issuance cost amortization	10,677	88,530
Finance costs	912,654	1,047,815

25. Income tax expense

Current Tax Expense

	2015 $	2014 $
Current income tax expense	4,978	54
Deferred income tax expense	-	-
	4,978	54

Deferred Tax Expense

Unrecognized deferred tax assets

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

	2015	2014
Capital assets	145,562	180,622
Intangibles	77,332	107,370
Inventory	2,162	2,342
Non-capital loss carry-forwards	12,071,922	10,643,137
Share issue costs	20,598	52,432
Scientific research and experimental development expenditures	7,535,586	6,735,345
	19,853,162	17,721,248

The Company has non-capital losses for income tax purposes of approximately $40,996,307 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:

25. Income tax expense (Continued)

Year	Amount $
2015	2,461,959
2026	3,390,309
2027	5,596,948
2028	6,997,140
2029	2,791,748
2030	6,596,636
2031	4,351,802
2032	2,313,255
2033	1,464,723
2034	1,890,509
2035	3,141,308
Total	40,996,307

Reconciliation of effective tax rate

	2015 $	2014 $
Loss for the period	(3,896,538)	(4,278,885)
Total income tax expense	4,978	54
Loss excluding income tax	(3,891,560)	(4,278,831)
Tax Rate	26.0%	25.0%
Expected income tax recovery	(1,011,806)	(1,069,708)
True up from prior year	-	(636,299)
Change in rate and other	(1,241,807)	-
Non-deductible expenses	11,582	200,624
Stock based compensation	115,096	147,147
Change in unrecognized temporary differences	2,131,913	1,358,290
	4,978	54

26. Financial risk management

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

Credit risk

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Management considers the demographics of the Company's customer base, including the default risk of the industry and country in which customers operate. Approximately 28.5% (2014: 13.1%) of the Company's 2015 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 transact with FLYHT only on a prepayment basis. The AFIRS Solution is subject to a retention of title clause, so that in the event of non-payment the Company will have a secured claim. To further minimize credit exposure, the sale of most AFIRS Solutions requires payment in advance of any product shipment. At each reporting date, the Company establishes an allowance for impairment that represents its estimate of incurred losses.

26. Financial risk management (Continued)

The aging of receivables at the reporting date was:

December 31, 2015	0-30 days $	31-60 days $	61-90 days $	91+ days $	Total $
Accounts receivable	865,067	39,128	(5,953)	537,393	1,435,635
Impairment	-	-	-	(537,469)	(537,469)
Net receivable	865,067	39,128	(5,953)	(76)	898,166

December 31, 2014	0-30 days $	31-60 days $	61-90 days $	91+ days $	Total $
Accounts receivable	646,795	326,522	107,106	271,218	1,351,641
Impairment	(37,747)	(37,728)	(37,731)	(278,649)	(391,855)
Net receivable	609,048	288,794	69,375	(7,431)	959,786

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, 2015 and 2014 was:

	2015 $	2014 $
Balance, January 1	391,855	198,007
Provision	165,164	409,478
Amounts written off	(19,550)	(203,651)
Impairments recovered	-	(11,979)
Balance, December 31	537,469	391,855

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, by maintaining a conservative capital structure, by 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, 2015	< 2 months $	2-12 months $	1-2 years $	2-5 years $	> 5 years $	Total $
Accounts payable	1,034,319	2,692	-	-	-	1,037,011
Compensation and statutory deductions	84,525	270,134	108,000	108,000	-	570,659
Finance lease liabilities	4,970	24,849	15,794	-	-	45,613
Accrued liabilities	39,215	61,650	9,715	18,782	-	129,362
Loans and borrowings	-	5,840,418	103,768	414,386	1,212,427	7,570,999
Total	1,163,029	6,199,743	237,277	541,168	1,212,427	9,353,644

26. Financial risk management (Continued)

December 31, 2014	< 2 months $	2-12 months $	1-2 years $	2-5 years $	> 5 years $	Total $
Accounts payable	638,598	12,114	-	-	-	650,712
Compensation and statutory deductions	406,298	110,584	-	-	-	516,882
Finance lease liabilities	4,970	24,849	29,818	15,794	-	75,431
Accrued liabilities	43,641	115,030	-	12,953	-	171,624
Loans and borrowings	-	585,146	5,819,600	360,335	1,370,267	8,135,348
Total	1,093,507	847,723	5,849,418	389,082	1,370,267	9,549,997

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 $102,932 (2014: $65,743) and a strengthening of the Canadian dollar would decrease net earnings by approximately $102,932 (2014: $65,743).

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, 2015, working capital denominated in U.S. dollars was approximately positive $90,053 (2014: positive $3,109,586). As a result a 1% weakening of the Canadian dollar would increase net earnings by approximately $901 (2014: $31,096) and a strengthening of the Canadian dollar would decrease net earnings by approximately $901 (2014: $31,096).

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, 2015 and 2014 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

The fair values of financial assets and liabilities approximate carrying values.

Capital management

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

27. Related parties

(a) Throughout 2014, the Company engaged in transactions with a company owned by a former director to supply consulting services in promoting the Company's product as a preferred solution for enhanced aircraft tracking and triggered data transmission. No similar services were contracted during 2015.

(b) In the third and fourth quarters of 2015, the Company entered into an agreement with a company with ownership that is related to an officer of FLYHT. The company supplied consulting services in recruitment and supplied a contract resource to develop tools used to enhance the Company's ground based software.

	Included in contract labour:				Included in accounts payable and accrued liabilities:	
	For the three months ended December 31		For the year ended December 31		December 31	
	2015	2014	2015	2014	2015	2014
	$	$	$	$	$	$
(a)	-	5,621	-	74,418	-	-
(b)	30,114	-	41,114	-	30,114	-
Total	30,114	5,621	41,114	74,418	30,114	-

All of the transactions with the related parties were at exchange amounts that approximated fair value. All other transactions with related parties were normal business transactions related to employee and director positions within the Company. These transactions included expense reimbursements for business travel and expenses paid by the related party, and were measured at exchange amounts paid to a third party as substantiated with a third party receipt.

Transactions with key management personnel

Key management personnel includes 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. Certain executive officers are entitled to a mutual term of notice of six months.

Compensation for this group comprised:

	2015	2014
	$	$
Salary	1,299,019	1,138,733
Director fees	167,494	125,928
Variable compensation	368,870	221,471
Retiring allowance	324,000	275,000
Share-based payments	305,855	208,418
Short-term employee benefits	123,858	131,425
Total	2,589,096	2,100,975

Directors of the Company control 2.6% (2014: 4.1%) 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%

28. Contingency

Subsequent to year end FLYHT received a claim from a partner totaling $0.8 million USD for past and potential future warranty claims relating to reliability of some active AFIRS units. The claim asserts a design defect has led to the reliability issues. The resolution of the claim is pending review. The result of the claim is currently unknown and will be resolved with the partner.

29. Subsequent event

On December 21, 2015 the Company granted a non-exclusive license to use certain of its intellectual property to a technology company for an aggregate license fee of $2.5 million USD, payable in the first quarter of 2016. Payment for this license has been delayed until the second quarter of 2016.

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