FLYHT AEROSPACE SOLUTIONS LTD.

FINANCIAL STATEMENTS 2015



FLYHT™
The Future of Connectivity

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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