

FINANCIAL STATEMENTS 2022

FLYHT AEROSPACE
SOLUTIONS LTD.

20 22



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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of FLYHT Aerospace Solutions Ltd.

Opinion

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

- the consolidated statements of financial position as at December 31, 2022 and December 31, 2021
- the consolidated statements of comprehensive loss for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies
- (Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2022 and December 31, 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS) as issued by the International Financial Accounting Standards Board (IASB).

Basis for Opinion

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

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

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



Material Uncertainty Related to Going Concern

We draw attention to Note 2(e) in the financial statements, which indicates that the Company incurred losses of \$1.0 million and \$5.9 million for the years ended 2022 and 2021 respectively and as at December 31, 2022 has a deficit of \$80 million.

As stated in Note 2(e) in the financial statements, these events or conditions, along with other matters as set forth in Note 2(e) in the financial statements, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2022. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matter described in the "***Material Uncertainty related to Going Concern***" section of the auditor's report, we have determined the matters described below to be the key audit matters to be communicated in our auditor's report.

Evaluation of the acquisition-date fair value of the customer relationship intangible assets acquired in the CrossConsense GmbH & Co. KG ("CrossConsense") acquisition

Description of the matter

We draw attention to Note 2(f) and Note 5 to the financial statements. On March 17, 2022, the Company acquired 100% of the shares of CrossConsense for total consideration of \$2,677,000. Judgement was required in identifying the assets acquired and liabilities assumed and in the estimation of their fair values. In connection with the CrossConsense acquisition, the Company recorded customer relationship intangible assets with an acquisition-date fair value of \$1,527,150. The Company engaged an independent valuation consultant to estimate the acquisition-date fair value of intangible assets. The acquisition-date fair value of the customer relationship intangible assets was determined using an estimated discounted future cash flows methodology which requires the Company to make significant assumptions. The significant assumptions used in determining the estimated acquisition-date fair value of the customer relationship intangible assets included forecasted revenue, forecasted cost of sales, the estimated customer attrition rates and discount rate.

Why the matter is a key audit matter

We identified the evaluation of the acquisition-date fair values of the customer relationship intangible assets acquired in the CrossConsense acquisition as a key audit matter. This matter created a significant risk of a material misstatement requiring significant auditor judgment to evaluate the results of our audit procedures regarding the Company's significant assumptions with respect to the estimated acquisition-date fair value of the customer relationship intangible assets. In addition, specialized skills and knowledge were required in evaluating the results of our audit procedures.



How the matter was addressed in the audit

The primary procedures we performed to address this key audit matter included the following:

- We compared the Company's forecasted revenue and forecasted cost of sales associated with the customer relationship intangible assets to 2021 and 2022 historical results of CrossConsense. We took into account changes in conditions and events affecting the customer relationships to assess the adjustments or lack of adjustments made by the Company in arriving at the assumptions.
- We inspected a selection of customer contracts and cost of sales invoices.
- We compared the estimated customer attrition rates to the historical customer attrition data of CrossConsense. We took into account changes in conditions and events affecting the customer relationships to assess the adjustments or lack of adjustments made by the Company in arriving at the assumptions.
- We evaluated the competence, capabilities and objectivity of the independent valuation consultant engaged by the Company.

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

- Evaluating the appropriateness of the discounted future cash flows methodology used by the Company to estimate the acquisition-date fair value of the customer relationship intangible assets
- Evaluating the appropriateness of the Company's discount rate, by comparing it against a discount rate range that was independently developed using a capital asset pricing model and weighted average cost of capital.

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.
- the information, other than the financial statements and the auditor's report thereon, included in the document entitled "2022 Annual Report".

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis and 2022 Annual Report filed with the relevant Canadian Securities Commissions as at the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditor's report.

We have nothing to report in this regard.



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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.
- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this auditor's report is Stephanie Regier Pankratz.

KPMG LLP

Chartered Professional Accountants

Calgary, Canada
April 12, 2023

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31, 2022	December 31, 2021
	\$	\$
Assets		
Current assets		
Cash and cash equivalents (note 6)	2,647,650	4,520,591
Trade and other receivables (note 7)	5,127,338	1,590,473
Contract assets	121,046	151,616
Deposits and prepaid expenses	349,132	377,688
Inventory (note 8)	1,385,048	1,683,006
Total current assets	9,630,214	8,323,374
Non-current assets		
Property and equipment (note 9)	2,839,104	2,812,606
Goodwill (note 10)	867,726	-
Intangible assets (note 11)	1,886,029	264,218
Inventory (note 8)	1,317,081	1,849,988
Total non-current assets	6,909,940	4,926,812
Total assets	16,540,154	13,250,186
Liabilities		
Current liabilities		
Trade payables and accrued liabilities (note 12)	2,736,269	1,703,309
Customer deposits (note 13)	376,668	609,555
Contract liabilities (note 14)	922,952	-
Loans and borrowings (note 15)	828,345	664,470
Lease liability (note 16)	436,581	373,756
Tax liability	10,541	-
Total current liabilities	5,311,356	3,351,090
Non-current liabilities		
Loans and borrowings (note 15)	4,049,428	3,791,816
Lease liability (note 16)	2,273,341	2,128,919
Provisions (note 17)	11,087	13,850
Total non-current liabilities	6,333,856	5,934,585
Total liabilities	11,645,212	9,285,675
Equity		
Share capital (note 18)	72,427,102	70,779,594
Warrants (note 18)	-	954,535
Contributed surplus	12,462,645	11,421,730
Cumulative translation adjustment	147,829	(51,747)
Deficit	(80,142,634)	(79,139,601)
Total equity	4,894,942	3,964,511
Total liabilities and equity	16,540,154	13,250,186

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

On behalf of the board



Director – Doug Marlin



Director – Paul Takalo

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

For the year ended December 31

	2022 \$	2021 \$
Revenue (note 20)	23,879,160	11,318,689
Cost of sales	8,673,300	4,849,118
Gross profit	15,205,860	6,469,571
Distribution expenses (note 21)	5,911,667	3,869,742
Administration expenses (note 22)	5,082,292	3,383,709
Research, development and certification engineering expenses (note 23)	4,620,487	4,447,201
Loss from operating activities	(408,586)	(5,231,081)
Finance income (note 24)	(40,317)	(104,499)
Finance costs (note 24)	624,223	732,372
Net finance costs	583,906	627,873
Loss before income tax	(992,492)	(5,858,954)
Income tax expense (note 25)	(10,541)	(252)
Loss for the period	(1,003,033)	(5,859,206)
Foreign currency translation adjustment	199,576	(747)
Comprehensive loss for the period	(803,457)	(5,859,953)
Loss per share		
Basic and diluted loss per share (note 19)	(0.03)	(0.19)

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the years ended December 31, 2022 and 2021

	Share Capital \$	Convertible Debenture \$	Warrants \$	Contributed Surplus \$	Cumulative Translation Adjustment	Deficit \$	Total Equity (Deficit) \$
Balance at January 1, 2022	70,779,594	-	954,535	11,421,730	(51,747)	(79,139,601)	3,964,511
Loss for the period	-	-	-	-	199,576	(1,003,033)	(803,457)
Total comprehensive loss	-	-	-	-	199,576	(1,003,033)	(803,457)
Contributions by and distributions to owners							
Issue of common shares	1,235,000	-	-	-	-	-	1,235,000
Share-based payment transactions	-	-	-	178,899	-	-	178,899
Warrants expired	-	-	(954,535)	954,535	-	-	-
Share options exercised	412,508	-	-	(92,519)	-	-	319,989
Total contributions by and distributions to owners	1,647,508	-	(954,535)	1,040,915	-	-	1,733,888
Balance at December 31, 2022	72,427,102	-	-	12,462,645	147,829	(80,142,634)	4,894,942
Balance at January 1, 2021	63,995,030	173,524	1,195,396	10,832,085	(51,000)	(73,280,395)	2,864,640
Loss for the period	-	-	-	-	(747)	(5,859,206)	(5,859,953)
Total comprehensive loss	-	-	-	-	(747)	(5,859,206)	(5,859,953)
Contributions by and distributions to owners							
Issue of common shares	6,786,614	-	-	-	-	-	6,786,614
Share issue costs	(55,712)	-	-	-	-	-	(55,712)
Share-based payment transactions	-	-	-	194,092	-	-	194,092
Conversion of debt	-	(173,524)	-	173,524	-	-	-
Warrants expired	-	-	(240,861)	240,861	-	-	-
Share options exercised	53,662	-	-	(18,832)	-	-	34,830
Total contributions by and distributions to owners	6,784,564	(173,524)	(240,861)	589,645	-	-	6,959,824
Balance at December 31, 2021	70,779,594	-	954,535	11,421,730	(51,747)	(79,139,601)	3,964,511

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the year ended December 31	
	2022	2021
	\$	\$
Cash flows from (used in) operating activities		
Loss for the period	(1,003,033)	(5,859,206)
Depreciation, amortization and impairment of non-financial assets	660,039	692,889
Disposal of non-financial assets	54,145	3,854
Convertible debenture accretion & interest	-	152,248
Lease liability accretion	110,426	105,293
Grant portion of contributions from WINN	(324,926)	(246,153)
Grant portion of BDC (HASCAP) loan	-	(31,016)
Government grants	(535,103)	-
Gain on loan modification	-	(84,938)
Government loan accretion	474,580	433,274
Equity-settled share-based payment expenses	178,899	194,092
Issuance of common shares	-	165,000
Change in inventories	830,865	(314,326)
Change in trade and other receivables	(3,402,747)	(5,999)
Change in contract assets	33,002	40,578
Change in prepayments	28,556	166,364
Change in trade and other payables	1,092,624	(427,029)
Change in customer deposits	(232,887)	116,876
Change in contract liabilities	922,952	-
Change in provisions	14,482	298
Provision used	(6,839)	(10,523)
Unrealized foreign exchange loss	(14,166)	(1,980)
Other interest expense	-	8,760
BDC (HASCAP) interest paid	(9,838)	(5,863)
Debenture interest paid	-	(133,949)
Lease interest paid	(106,586)	(103,760)
Interest income	(26,576)	(17,581)
Interest received	24,144	13,279
Income tax expense	10,541	252
Income tax paid	(10,406)	(280)
Net cash from (used in) operating activities	(1,237,852)	(5,149,546)
Cash flows used in investing activities		
Acquisitions of property and equipment	(81,356)	(369,547)
Acquisition of CrossConsense	(1,442,000)	-
FLYHT WVSS-II intellectual property	-	(229,226)
Proceeds on the sale of property and equipment	100	482
Net cash used in investing activities	(1,523,256)	(598,291)
Cash flows from financing activities		
Net proceeds from private placement	-	6,565,901
Proceeds from exercise of share options	319,989	34,830
Payment of lease liabilities	(285,299)	(445,675)
Contributions from ERTC	422,603	-
Contributions from Alberta Innovates	112,500	-
Contributions from WINN	947,368	1,025,370
Contributions from BDC (HASCAP)	-	250,000
Repayment of convertible debenture	-	(1,674,359)
Repayment of borrowings	(665,697)	(625,820)
Net cash from financing activities	851,464	5,130,247
Net increase (decrease) in cash and cash equivalents	(1,909,644)	(617,590)
Cash and cash equivalents, beginning	4,520,591	5,127,963
Effect of exchange rate fluctuations on cash held	36,703	10,218
Cash and cash equivalents, ending	2,647,650	4,520,591

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2022 and 2021

1. Reporting entity

FLYHT Aerospace Solutions Ltd. (the “**Company**” or “**FLYHT**”) was founded in 1998 under the name AeroMechanical Services Ltd. FLYHT is a public company incorporated under the Canada Business Corporations Act, and is domiciled in Canada. The Company has been listed on the TSX Venture Exchange since March 2003, first as TSX.V: AMA and as TSX.V: FLY since 2012 and has been listed on the OTCQX marketplace since June 2014 as OTCQX: FLYLF. FLYHT is publicly traded as FLY in Canada on the TSX.V; and as FLYLF in the USA on the OTCQX. FLYHT is based in Calgary, Canada with offices in Denver CO, USA and Frankfurt, Germany. FLYHT Aerospace Solutions Ltd is an AS9100 Quality registered company. For more information visit www.flyht.com.

FLYHT provides airlines with Actionable Intelligence to transform operational insight into immediate, quantifiable action and delivers industry leading solutions to improve aviation safety, efficiency, and profitability. This unique capability is driven by a suite of patented aircraft certified hardware products and software solutions. These include AFIRS, an aircraft satcom/interface device, which enables cockpit voice communications, real-time aircraft state analysis, and the transmission of aircraft data while inflight. The AFIRS Edge is a state-of-the-art 5G Wireless Quick Access Recorder (WQAR), Aircraft Interface Device (AID), and Aircraft Condition and Monitoring System (ACMS). The Edge can be interfaced with FLYHT’s TAMDAR probe or the FLYHT-WVSS-II relative humidity sensor to deliver airborne weather and humidity data in real-time. FLYHT complements the AFIRS airborne systems with enterprise applications that help airlines improve operational efficiency and situational awareness including UpTime, FleetWatch, FuelSense and ClearPort services.

2. Basis of preparation

(a) Basis of accounting

These consolidated annual financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). These consolidated financial statements were approved by the Board of Directors on April 12, 2023.

(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.

(c) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the Company’s functional currency. The functional currency of the Company’s USA subsidiary is US dollars, and of the Company’s German subsidiary is the euro.

(d) COVID-19

Starting in early 2020 FLYHT saw impact of the pandemic in revenue and trade receivable payments due to the impact of the pandemic on our customers. There has been recovery in FLYHT’s customer base, with aircraft re-commencing operations as well as receivable payments being made, although geographic differences in rates and timing of recovery continue to be seen. Various segments of the aviation industry were impacted differently throughout the pandemic, with the decline in commercial aviation being partially offset by an increased demand for cargo services. Geographic differences continue, as pandemic waves affect different parts of the globe at different times, vaccination programs vary greatly between countries, and remote locations of the world maintain their supply chain and connection to the rest of the world via air transport.

Although recovery is evident in FLYHT’s increase in revenues since the pandemic low in early 2021, the Company anticipates continued negative revenue impact in the near-term as compared to pre-pandemic periods due to customers rescheduling orders and continued decreases in air traffic in some areas of the world. This may continue to impact the Company’s corresponding hardware and SaaS revenues, and have a potential impact on the Company’s ability to collect accounts receivable. There is continued risk until such a time as the global aviation industry recovers fully. There exists a possibility that an extended industry recovery could cause FLYHT to scale back operations to create positive cash from existing revenue and/or raise the necessary financing in the capital markets through debt and/or equity.

To preserve the Company's liquidity through this period of commercial aviation uncertainty, the following measures were undertaken:

- Focused effort on development of strategic SaaS partnerships
- Focused development on Actionable Intelligence SaaS products
- Access to governmental support
- Cost containment and cash conservation
- Working with existing partner airlines to assist in their recovery

The Company will continue to monitor industry conditions and implement these and other measures, as the situation dictates.

In 2022, the Company recognized a total of \$423 thousand (2021: \$1.2 million) in government financial relief related to COVID-19 which has been applied to offset associated expenses in all three expense categories (Distribution, Administration and Research & Development). All grant funds received to date have been recognized in profit and loss.

(e) Going concern

The consolidated financial statements have been prepared on the basis that the Company will continue to realize its assets and meet its obligations in the ordinary course of business. It is the Company's intention to continue to fund operations by adding revenue and its resulting cash flow, as well as continue to manage outgoing cash flows. The Company incurred losses in both 2022 and 2021 of \$1.0 million and \$5.9 million respectively and as at December 31, 2022 has a deficit of \$80 million. In 2022, the Company used \$1.2 million of cash in operations. At December 31, 2022, the Company had positive working capital of \$4.3 million compared to positive \$4.9 million as of December 31, 2021, a decrease of \$0.6 million. The Company ended 2022 with balances of \$2.6 million in cash and cash equivalents and an undrawn credit facility of \$2.0 million.

For the Company to continue as a going concern longer-term, it will need to achieve profitability and positive operating cash flows. Positive earnings and operating cash flow in the final quarter of 2022 reflect recent progress in this area. The Company will continue to expand its earnings and cash flow potential through its focused marketing efforts, particularly the presentation of Actionable Intelligence tools to our customers and prospects, which are expected to result in additional contracts for delivery of hardware units and related services. Until achieving consistent positive earnings and cash flows, it is the Company's intention to continue to fund operations through revenue and its resulting cash flow as well as continue to manage outgoing cash flows. The Company may elect to scale back operations to create positive cash from existing revenue and/or raise the necessary financing in the capital markets through debt and/or equity.

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. There is no assurance that the Company will be successful in attaining and sustaining profitable operations and positive cash flow and/or raising additional capital to meet its capital requirements. If the Company is unable to satisfy its working capital requirements from these sources, the Company's ability to continue as a going concern and to achieve its intended business objectives will be adversely affected. As a result of these factors, there is a material uncertainty that may cast doubt as to the Company's ability to continue as a going concern. The consolidated financial statements do not reflect adjustments that would otherwise be necessary if the going concern assumption was not valid, such as revaluation to liquidation values and reclassification of statement of financial position items.

(f) Use of judgements and estimates

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

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

1. Recognition of deferred tax assets: the availability of future taxable profit against which deductible temporary differences and tax losses carried forward can be utilized.
2. Recognition and measurement of provisions and contingences: key assumptions about the likelihood and magnitude of an outflow of resources.
3. Measurement of expected credit loss allowance for trade receivables: the expected credit loss is determined by assessing potential credit impairment at each reporting date.
4. The Company assesses raw materials and finished goods inventory for potential obsolescence or impairment. This provision is determined based on regular reviews of slow-moving inventory.

5. The fair value of WINN contributions: a discount rate is used to determine the portion of the contribution to be categorized as a repayable loan at below market interest rates. The discount rate is determined based on debt market conditions as well as factors specific to the Company's operations and financial position.
6. Revenue recognition: accounting for revenue from customers requires management to make judgements when identifying performance obligations in each contract. Estimates are required to be made when determining the transaction price and when allocating the transaction price to the performance obligations identified, and, for certain contracts, when measuring progress of the transfer of the performance obligation.
7. Valuation of WVSS-II assets acquired: a discount rate and a market royalty rate were used to determine the fair value of the intangible assets acquired.
8. Valuation of CrossConsense business combination: judgement was required in identifying the assets acquired and liabilities assumed and in the estimation of their fair values. The company engaged an independent valuation consultant to estimate the acquisition-date fair value of intangibles assets. The process employed widely accepted valuation techniques, with key assumptions being discount rates and anticipated future revenues and expenses, with growth rates specific to the acquired assets and assumed liabilities. Changes to assumptions could significantly impact the fair value of certain assets, such as intangible assets like customer relationships. The acquisition-date fair value of customer relationship intangible assets was determined using an estimated discounted future cash flow methodology which requires the Company to make significant assumptions. The significant assumptions used in determining the estimated acquisition-date fair value of intangible assets related to customer relationships included estimated customer attrition rates, forecasted revenue, forecasted cost of sales and discount rate.

3. Significant accounting policies

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

(a) Basis of consolidation

(i) Subsidiaries

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

These consolidated financial statements consolidate the accounts of FLYHT and its wholly owned subsidiaries, FLYHT Inc., FLYHT Germany GmbH, CrossConsense GmbH and Co. KG, CrossConsense Services GmbH, FLYHT Corp., FLYHT India Corp., and AeroMechanical Services USA Inc. The latter three subsidiaries are inactive.

(ii) Transactions eliminated on consolidation

Intra-group balances, transactions, and any unrealized income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

(b) Financial instruments

(i) Recognition and measurement

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

Trade receivables are financial assets with fixed or determinable payments that are solely payments of principal and interest. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, trade receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Loans and borrowings are recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest rate method.

(ii) Derecognition

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

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

(iii) Offsetting

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

(iv) Equity

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

Warrants are classified as equity. Incremental costs directly attributable to the issue of warrants are recognized as a deduction from equity, net of any tax effects. The fair value of warrants is estimated using the Black-Scholes option pricing model.

(v) Compound financial instruments

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

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

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

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

(c) Inventories

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

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

Raw material inventories include general parts, which are held pending installation or assembly.

Finished goods consists of units that have been assembled or purchased and are held pending sale to customers.

(d) Property and equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset and to bringing the asset to the location and working condition for its intended use.

Software that is integral to the functionality of the related equipment is recognized as property and equipment, otherwise it is considered an intangible asset.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment. Net gains (losses) are recognized in profit or loss.

(ii) Subsequent costs

The cost of replacing a part of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

(iii) Depreciation

Depreciation is calculated using the depreciable amount, which is the cost of an asset less its residual value. Depreciation is recognized in profit or loss at rates that most closely reflects the expected pattern of consumption of the future economic benefits embodied in the assets. Depreciation rates are as follows:

Computers	30% declining balance
Software	12 months straight line
Enterprise Reporting Software	60 months straight line
Equipment	20% declining balance
Leasehold improvements	Straight line over the expected period of use, which is normally the lease term
Leased assets	Straight line over the expected period of use, which is normally the lease term

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

(e) Research and development ("R&D")

(i) Recognition and measurement

R&D costs consist primarily of consulting expenses and parts related to the design, testing, and manufacture of AFIRS, the AFIRS Edge, FLYHT WVSS-II systems and the design and testing of all software systems and products (including AirMap, UpTime, FLYHTASD, FleetWatch, FuelSense, ClearPort, and Actionable Intelligence). Other R&D costs include testing, patent application and certification.

Expenditure on research activities is expensed as incurred.

Development activities involve a plan or design for the production of new or substantially improved systems or solutions. Development expenditure is capitalized when development costs can be measured reliably, the product or process can be designed, constructed, operated, or carried out to accomplish its goals and objectives, using accepted engineering and other technical principles and concepts, where the development benefits are expressed as far as possible in monetary terms so that they can be compared on an equal level. A development activity is assessed as economically viable if the project benefits exceed the project costs and the Company intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalized includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use and borrowing costs on qualifying assets. Other development expenditure is recognized in profit or loss as incurred. To date, all development costs have been expensed as incurred.

(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) Leases

(i) Recognition and measurement

The Company leases properties and office equipment. The Company recognizes right-of-use assets ("ROA") and lease liabilities at the commencement date of the lease (i.e., the date the underlying asset is available for use).

The ROA is initially measured at cost, which comprises the initial amount of the lease liability adjusted for lease payments made on or before the commencement date, initial direct costs and any lease incentives received.

At the commencement date of the lease, the Company also recognizes the associated lease liability, measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments less any lease incentives received. In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

After the commencement date, the amount of lease liability is increased to reflect the accretion of interest and reduced for the lease payments made. The lease liability is remeasured when there is change in future lease payments arising from a change in an index or rate, if there is a change in management's estimate of the amount expected to be payable under a residual value guarantee, if management changes its assessment of whether it will exercise a purchase, extension, or termination option, or if there is a revised in-substance fixed lease payments.

The Company expenses the lease payments associated with short-term leases with durations of less than 12 months, and leases of low-value assets.

(ii) Amortization

The ROA is depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the ROA and the end of the lease term. In addition, the ROA is reduced for any impairment losses.

(g) Intangible assets and goodwill

Intangible assets that are acquired by the Company and have finite useful lives are measured at cost less accumulated amortization and accumulated impairment losses. Intangible assets with finite lives are amortized using a straight-line basis over their estimated useful lives, which are reviewed each reporting period. Useful lives are as follows:

Customer relationships	5-10 years
Tradenames	10 years

Intangible assets acquired by the Company with indefinite useful lives and goodwill are measured at cost less accumulated impairment losses.

Goodwill is assessed for impairment annually. Intangible assets are tested annually for impairment or when there are indicators of impairment. An intangible asset is derecognized on disposal or impaired when no future economic benefits are expected from its use or disposal.

(h) Government assistance

(i) Government grants

Government grants, including forgiveness of government loans, related to qualifying research expenditures are recognized in profit or loss to match the costs that they are intended to compensate when there is reasonable assurance that the grant will be received, and the Company will comply with the conditions associated with the grant.

(ii) Government loans

Low-interest or interest-free government loans are measured initially at their fair value and interest is imputed on the loan in subsequent periods. The benefit of the below-market interest rate is measured as the difference between the fair value of the loan on initial recognition and the amount received. This benefit is accounted for according to the type of grant.

(i) Business combinations

The Company accounts for business combinations using the acquisition method when control is obtained. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognized in profit or loss immediately. Transactions costs are expensed as incurred, except if related to the issue of debt or equity securities.

Any contingent consideration is measured at fair value at the date of acquisition. Obligations to pay a contingent consideration are remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognized in profit or loss.

(j) Asset Acquisitions

The Company accounts for asset acquisitions using the cost accumulation method when control is obtained. The individual identifiable assets are determined and the cost of the acquisition, including certain transaction costs, is allocated to the assets acquired on the basis of relative fair value. This allocation can result in the recognition of some assets at a value other than their fair market value.

(k) Provisions

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

(l) Warranties

The Company typically warrants that product shall be free of defects at minimum during the first term of each agreement, which is usually 3-5 years. Provision required for warranties is recognized at the later of the date the underlying products or services are shipped, or the effective date of the agreement granting the warranty. The provision is based on historical failure rates and repair costs.

(m) Impairment

(i) Non-derivative financial assets

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

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

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

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

(ii) Non-financial assets

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

At each reporting date, the Company reviews the carrying amounts of its non-financial assets (other than goodwill, inventories and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the assets recoverable amount is estimated. The cash-generating units that goodwill has been allocated to are tested annually for impairment.

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

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

(n) Revenue

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

(i) SaaS

Revenue from sales of Software as a Service is recognized over time as these services are provided. Invoices are generated monthly and typically are payable within 30 days. The Company uses the practical expedient to recognize revenue at the amount to which it has a right to invoice, which corresponds directly to the value to the customer of the entity's performance completed to date.

(ii) Hardware

Control of Hardware is transferred upon shipment. Invoices are generated, and revenue is recognized at that point in time. Payment terms are based on the creditworthiness of each customer, which results in either a grant of net terms or a requirement to transact on a prepayment basis only. Transaction price is determined by contract or purchase order.

(iii) Licensing

Control over modems and associated IP licenses is transferred upon shipment, at which point the revenue is recognized. Payment is typically due 30 days after shipment although may vary per purchase order. This category also includes arrangements for exclusive access to weather data sets which is recognized over the relevant licensing period.

(iv) Technical Services

Revenue from Technical Services is recognized over time, as the services are provided. Payment terms for these services typically follow terms established for Hardware. The Company uses the practical expedient to recognize revenue at the amount to which it has a right to invoice, which corresponds directly to the value to the customer of the entity's performance completed to date.

(o) Employee benefits

(i) Short-term employee benefits

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

(ii) Share-based payment transactions

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

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

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

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

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

(i) Stock options granted to consultants

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

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

(ii) Agent warrants

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

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

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

(q) Finance income and finance costs

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

(r) 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, categorized as finance income or costs.

(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.

(s) Income tax

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

(i) Current tax

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

(ii) Deferred tax

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

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

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

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

(t) 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. Measurement of fair values

A number of the Company's accounting policies and disclosures require the measurement of fair value, for both financial and non-financial assets and liabilities. When measuring the fair value of an asset or a liability, the Company uses observable market data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

Fair values have been determined for measurement and/or disclosure purposes based on the following methods, all of which are determined using a number of observable inputs other than quoted prices in active markets (Level 2).

- (a) Cash and cash equivalents, trade and other receivables, trade payables and accrued liabilities: carrying value approximates fair value, due to the short-term nature of the instruments.
- (b) Loans and borrowings: for measurement purposes, fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the inception of the loan. In respect of the liability component of convertible debentures, the market rate of interest is determined by reference to similar liabilities that do not have a conversion feature.

5. Business Combination

On March 17, 2022, the Company acquired 100% of the shares of CrossConsense GmbH & Co. KG ("CrossConsense"). Founded in 2002, Frankfurt Germany-based CrossConsense develops and markets software to support commercial aviation maintenance management. Products include a predictive maintenance troubleshooting and engineering tool; software to support aircraft maintenance, repair and data migration; and live data dashboards to assist aircraft maintenance teams. CrossConsense has also constructed a progressive web application plus native apps that offer up-to-date data on an airline's fleet status. Additionally, CrossConsense offers consulting and support services as well as hosting, database operation and performance monitoring of commercial aircraft maintenance applications. This acquisition is expected to accelerate FLYHT's strategic roadmap to build out a maintenance software capability and fulfills the Company's goal to increase its presence in the European and Middle East markets.

Under terms of the agreement, FLYHT (through its wholly owned German subsidiary formed as part of this transaction) acquired all of the outstanding securities of CrossConsense for \$1.25 million in cash and 1.9 million common shares of the Company, valued at \$1.235 million based on the fair value of each common share of the Company on the closing date of \$0.65 per share. The shares are being held in escrow and will be released equally in 1/3 increments at 4-, 16- and 28-months following issuance on the transaction's closing date. Also included in the purchase price was other consideration valued at \$192,000.

The Company incurred acquisition-related costs of \$254,903 in due diligence and legal fees in 2021 and a further \$150,121 in 2022. Additionally, in Q1 2022 finders' fees of \$100,000 were paid to a third party in connection with the closing of the transaction. These costs have been included in Administrative Expenses.

The value allocated to the purchase price on the closing date was as follows:

	\$
Cash paid	1,250,000
Common shares issued	1,235,000
Other consideration	192,000
Total consideration	<u>2,677,000</u>

The value of acquired assets and assumed liabilities were as follows: \$

Cash and cash equivalents	1,195,226
Trade and other receivables	590,512
Deposits and prepaid expenses	18,002
Property and equipment	9,322
Leased assets	278,467
Intangible asset: customer relationships	1,527,150
Intangible asset: tradename	217,281
Goodwill	837,258
Trade payables and accrued liabilities	(910,669)
Contract liabilities	(807,082)
Lease liability	(278,467)
Total consideration	<u>2,677,000</u>

Goodwill is attributable to the workforce of the acquired business as well as the expected opportunities for growth and synergies across products, staff, customers and geographies. Goodwill is allocated to the Company's single operating segment and is fully deductible for tax purposes.

The fair value of the assets acquired approximates the book value and includes trade receivables of \$409,985. The gross amount due under contracts is \$413,398, of which \$3,413 is anticipated to be uncollectible. The acquired business contributed revenues of \$4,015,700 and earnings of \$26,558 to FLYHT for the period from March 17, 2022 to December 31, 2022. If the acquisition had occurred on January 1, 2022, consolidated proforma revenue and loss for the year ended December 31, 2022 would have been \$24,765,919 and \$1,030,715 respectively. The pro forma results are as follows:

	For the year ended December 31 2022 \$
Revenue	24,765,919
Cost of sales	9,128,610
Gross profit	15,637,309
Distribution expenses	6,098,425
Administration expenses	5,215,898
Research, development and certification engineering expenses	4,769,723
Loss from operating activities	(446,737)
Net finance (income) costs	583,978
Loss for the period	(1,030,715)

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, 2022 \$	December 31, 2021 \$
Trade receivables (note 26)	5,030,473	1,588,011
Non-trade receivables and accrued receivables	96,865	2,462
Total	5,127,338	1,590,473

Non-trade receivables consist of input tax credits. The Company's exposure to credit and currency risks is disclosed in note 26.

8. Inventory

	December 31, 2022 \$	December 31, 2021 \$
Raw materials	1,601,058	2,235,640
Work in progress	-	15,491
Finished goods	1,101,071	1,281,863
Balance	2,702,129	3,532,994
Less current portion	(1,385,048)	(1,683,006)
Non-current portion	1,317,081	1,849,988

In 2022 Raw materials and Finished goods recognized as cost of sales amounted to \$3,261,573 (2021: \$2,229,777). Included in this amount was a write down of inventories amounting to \$598,002 (2021: \$382,992) resulting from the review of slow-moving inventory parts. All inventories are pledged as security for the bank loan (note 15).

9. Property and equipment

2022	Computers and Software \$	Equipment \$	Leasehold Improvements \$	Leased Assets \$	Total \$
Cost					
Balance at January 1	829,347	784,915	17,687	3,374,835	5,006,784
Additions	67,461	11,924	5,322	482,209	566,916
Disposals	(26,415)	(5,880)	(18,830)	(1,069,182)	(1,091,105)
Cumulative translation adjustment	3,710	2,004	1,143	63,113	69,970
Balance at December 31	874,103	792,963	5,322	2,850,975	4,552,565
Accumulated Depreciation					
Balance at January 1	607,336	293,008	16,370	1,277,464	2,194,178
Depreciation for the year	73,719	53,927	2,408	388,191	518,245
Disposals	(19,336)	(2,991)	(18,830)	(1,058,948)	(1,070,903)
Cumulative translation adjustment	10,233	7,486	335	53,887	71,941
Balance at December 31	671,952	351,430	283	660,594	1,713,461
Carrying Amounts					
At January 1	222,011	491,907	1,317	2,097,371	2,812,606
At December 31	202,151	441,533	5,039	2,190,381	2,839,104
2021					
	Computers and Software \$	Equipment \$	Leasehold Improvements \$	Leased Assets \$	Total \$
Cost					
Balance at January 1	806,453	541,023	17,706	3,771,693	5,136,875
Additions	123,049	246,366	-	112,628	482,043
Disposals	(100,061)	(2,469)	-	(508,434)	(610,964)
Cumulative translation adjustment	(94)	(5)	(19)	(1,052)	(1,170)
Balance at December 31	829,347	784,915	17,687	3,374,835	5,006,784
Accumulated Depreciation					
Balance at January 1	590,953	223,969	11,114	1,275,447	2,101,483
Depreciation for the year	112,590	69,816	5,222	505,261	692,889
Disposals	(96,954)	(1,240)	-	(506,596)	(604,790)
Cumulative translation adjustment	747	463	34	3,352	4,596
Balance at December 31	607,336	293,008	16,370	1,277,464	2,194,178
Carrying Amounts					
At January 1	215,500	317,054	6,592	2,496,246	3,035,392
At December 31	222,011	491,907	1,317	2,097,371	2,812,606

As of December 31, 2022, all property and equipment are pledged as security for the bank loan (note 15).

10. Goodwill

	December 31, 2022 \$	December 31, 2021 \$
Gross carrying amount		
Balance at January 1	-	-
Acquired through business combination (note 5)	837,258	-
Cumulative translation adjustment	30,468	-
Balance at December 31	867,726	-
Accumulated impairment		
Balance at January 1	-	-
Impairment loss	-	-
Balance at December 31	-	-
Carrying Amounts		
At January 1	-	-
At December 31	867,726	-

11. Intangible assets

2022	Licenses	Customer Relationships	Tradenames	Intellectual Property	Total
	\$	\$	\$	\$	\$
Cost					
Balance at January 1	34,992	-	-	229,226	264,218
Acquired through business combination (note 5)	-	1,527,150	217,281	-	1,744,431
Disposals	(34,992)	-	-	-	(34,992)
Cumulative translation adjustment	-	55,573	7,907	-	63,480
Balance at December 31	-	1,582,723	225,188	229,226	2,037,137
Accumulated Amortization					
Balance at January 1	-	-	-	-	-
Amortization for the year	-	125,064	16,730	-	141,794
Impairment loss	-	-	-	-	-
Disposals	-	-	-	-	-
Cumulative translation adjustment	-	8,214	1,100	-	9,314
Balance at December 31	-	133,278	17,830	-	151,108
Carrying Amounts					
At January 1	34,992	-	-	229,226	264,218
At December 31	-	1,449,445	207,358	229,226	1,886,029

2021	Licenses	Customer Relationships	Tradenames	Intellectual Property	Total
	\$	\$	\$	\$	\$
Cost					
Balance at January 1	34,992	-	-	-	34,992
Additions	-	-	-	229,226	229,226
Disposals	-	-	-	-	-
Cumulative translation adjustment	-	-	-	-	-
Balance at December 31	34,992	-	-	229,226	264,218
Accumulated Amortization					
Balance at January 1	-	-	-	-	-
Amortization for the year	-	-	-	-	-
Disposals	-	-	-	-	-
Cumulative translation adjustment	-	-	-	-	-
Balance at December 31	-	-	-	-	-
Carrying Amounts					
At January 1	34,992	-	-	-	34,992
At December 31	34,992	-	-	229,226	264,218

The license purchased from Bombardier allowing FLYHT access to technical documents for their CRJ aircraft was derecognized in 2022, with consideration given to the usefulness of the data in future FLYHT applications and recent changes in Bombardier's business.

Customer relationships and tradenames were acquired in 2022 as part of CrossConsense business combination (note 5). The remaining amortization period for customer relationships and tradenames is 9 years.

Intellectual property includes the value of the FLYHT WVSS-II intellectual property obtained in 2021.

Intangible assets are pledged as security for the bank loan (note 15).

12. Trade payables and accrued liabilities

	December 31, 2022	December 31, 2021
	\$	\$
Trade payables	2,161,822	990,053
Compensation and statutory deductions	323,685	309,082
Accrued liabilities	250,762	404,174
Balance, December 31	2,736,269	1,703,309

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

13. Customer deposits

	December 31, 2022	December 31, 2021
	\$	\$
Opening balance	609,555	492,679
Payments received	2,376,293	2,029,607
Recognized as revenue	(2,609,180)	(1,912,731)
Balance, December 31	376,668	609,555

Customer deposits are recognized for non-refundable deposits received prior to hardware and technical services being delivered to a customer. Customer deposits are recognized into revenue when hardware is shipped, or technical services are provided to the customer.

14. Contract liabilities

	December 31, 2022	December 31, 2021
	\$	\$
Opening balance	-	-
Acquired (CrossConsense business combination)	807,082	-
Cumulative translation adjustment	29,370	-
Payments received	1,027,392	-
Recognized as revenue	(940,892)	-
Balance, December 31	922,952	-

Contract liabilities are recognized for consideration received prior to SaaS services being provided to a customer. This balance relates to CrossConsense customer contracts that require upfront payment for services delivered over the subsequent twelve-month period. Contract liabilities are recognized into revenue when services have been provided to the customer.

15. Loans and Borrowings

Bank loan

The Company has an operating demand loan available through a Canadian chartered bank for up to a maximum of \$2.0 million, drawn either in CAD or USD. The operating demand loan bears interest at the Canadian chartered bank prime plus 1.5% (CAD) or US prime plus 4.5% (USD). Security includes accounts receivable, cash collateral in the form of a Guaranteed Investment Certificate, a guarantee under the Export Development Canada's Export Guarantee Fund and a general security agreement including a security interest in all personal property. This facility was undrawn at both December 31, 2021 and 2022.

Government loans

In November 2016, the Company signed a contribution agreement with Western Economic Diversification Canada for a WINN loan, to support plans for technology development in the air and ground components of the Company's products. Under the terms of the agreement, a repayable unsecured WINN contribution to the value of the lesser of 50% of the eligible project costs to March 31, 2019 or \$2,350,000 was received. The amount is repayable over five years commencing January 1, 2020. Amendments in 2020 adjusted the payment dates due to COVID-19, so that there were no payments scheduled from April through December 2020 and the final payment date was pushed back to September 2025. Repayments in 2022 totaled \$468,000 (2021: \$468,000). The carrying value of the amount owing under this program at December 31, 2022 is \$1,132,345 (December 31, 2021: \$1,472,209).

In November 2018, the Company signed a second contribution agreement with Western Economic Diversification Canada for a WINN loan, to support development of the next generation of AFIRS hardware and embedded software to address parts obsolescence issues and add new market-driven features. Under the terms of this agreement, a repayable unsecured WINN contribution to the value of the lesser of 44% of the eligible project costs to April 30, 2021 or \$2,761,000 was received, repayable over five years commencing October 1, 2021. Amendments in 2021 extended the timeframe for eligible project cost submission to September 30, 2023 and adjusted the repayment start date to October 1, 2023 with a final payment date of September 1, 2028. The carrying value of the amount owing under this program at December 31, 2022 is \$2,202,931 (December 31, 2021: \$1,455,540).

Both WINN loans are interest free.

Under SADI, the Company received a loan of \$1,967,507 which is repayable over 15 years on a stepped basis commencing April 30, 2014. The initial payment on April 30, 2014 was 3.5% of the total contribution received and the payment increases yearly by 15% until January 31, 2029 (adjusted from April 30, 2028 in response to the COVID-19 pandemic) when the final payment will be 24.5% of the total contribution received. Repayment of \$181,493 was made in 2022 (2021: \$157,820). The carrying value of the amount owing under this program at December 31, 2022 is \$1,331,720 (December 31, 2021: \$1,306,656).

In May 2021, the Company received funding of \$250,000 through the BDC's HASCAP loan program, designed to support small and medium sized businesses affected by COVID-19. This loan carries interest of 4% per annum over a 10-year term commencing May 10, 2021. Payments in the first year following funding are comprised of interest only, with the principal and accrued interest payable over the remaining 9 years. Principal repayments in 2022 totaled \$16,204 (2021: nil). The carrying value of the amount owing under this program at December 31, 2022 is \$210,777 (December 31, 2021: \$221,881).

A summary of the carrying value of the government loans as at December 31, 2022 and changes during the year and comparative year are presented below.

	2022 Total	2021 Total
Balance January 1	4,456,286	3,732,670
Contributions received	947,368	1,275,370
Grant portion	(324,926)	(277,169)
Interest accretion	474,580	442,036
Gain on loan modification	-	(84,938)
Repayment	(675,535)	(631,683)
Balance December 31	4,877,773	4,456,286
Less current portion	(828,345)	(664,470)
Non-current portion	4,049,428	3,791,816

16. Lease liability

On March 1, 2020 the leasing arrangement for the new corporate head office of FLYHT commenced. At inception in Q1 2020, the Company recognized a right of use asset of \$2,257,457 in Property and Equipment and a lease liability for the same amount. The amount was determined using a discount rate of 3.95%, based on the incremental borrowing rate of the Company, and a lease term of 136 months. A reduction to the asset and associated lease liability of \$120,524 occurred in 2021 with the completion of all initial contract terms. Amortization of the asset and accretion of the associated lease liability commenced on March 1, 2020.

On October 20, 2021 FLYHT entered into a lease expansion agreement, acquiring additional space co-located with the corporate head office. The terms of the lease include a 7-month period, followed by an 8.5-year contract term, to align with the terms on the initial lease. Annual payment amounts begin at \$48,172 for the first 1.5 years, escalate by approximately 6% for the next 3 years, an additional 6% for the following 3 years, and an additional 6% for the final year. At inception, the Company recognized a right of use asset of \$231,833 and a lease liability for the same amount. The value was determined using a discount rate based on the incremental borrowing rate of the Company, over the lease term of 110 months. Amortization of the asset and accretion of the associated lease liability commenced on November 1, 2021.

In conjunction with the CrossConsense business combination that occurred on March 17, 2022 FLYHT inherited the leasing arrangement for CrossConsense's head office. Under German GAAP no lease liability was calculated previously. The remaining term of the lease upon acquisition is 3.5 years, with an annual payment amount of €64,296 EUR (\$89,936 CAD) in 2022 and consecutive annual amounts to be adjusted based on Germany's annual CPI. At acquisition, the Company recognized a right of use asset of €199,077 EUR (\$278,466 CAD) and a lease liability for the same amount. The value was determined using a discount rate based on the incremental borrowing rate of the Company, over the remaining lease term of 42 months.

On April 16, 2022, a lease agreement was entered into for server equipment at the FLYHT corporate head office. The terms of the lease include a 5-year contract term with monthly payments. At inception, the Company recognized a right of use asset of \$147,407 and a lease liability for the same amount. The value was determined using the discount rate implicit in the lease, over the lease term of 60 months. Amortization of the asset and accretion of the associated lease liability commenced on September 1, 2022.

	2022 \$	2021 \$
Opening balance	2,502,675	2,837,142
Additions	482,209	112,628
Finance costs (note 24)	110,426	105,293
Lease payments	(395,725)	(549,435)
Disposals	(10,234)	-
Cumulative translation adjustment	20,571	(2,953)
Balance, December 31	2,709,922	2,502,675
Less current portion	(436,581)	(373,756)
Non-current portion	2,273,341	2,128,919

17. Provisions

Product warranty	2022 \$	2021 \$
Balance January 1	13,850	24,103
Provision made during the period	5,744	5,959
Provision extinguished	(3,162)	(1,928)
Provision re-evaluation	1,494	(3,761)
Provision used during the period	(6,839)	(10,523)
Balance, December 31	11,087	13,850

A provision for warranties is recognized when the underlying products or services are sold. The provision is based on historical warranty data. The provision extinguished was the value of the provision for warranties expiring throughout each respective year.

18. 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:

	Number of Shares	Value \$
Common shares:		
Balance January 1, 2021	27,279,024	63,995,030
Exercise of employee options	59,034	53,662
Common shares issued	9,078,818	6,786,614
Share issue costs	-	(55,712)
Balance December 31, 2021	36,416,876	70,779,594
Exercise of employee options	487,598	412,508
Common shares issued	1,900,000	1,235,000
Balance December 31, 2022	38,804,474	72,427,102

Option exercises during 2022 have resulted in the Company issuing a total of 487,598 shares for total proceeds of \$319,989.

Stock option plan

The Company grants stock options to its directors, officers, employees and consultants. The following stock options were granted in 2022:

- 518,715 stock options to employees, officers and directors under the stock option plan with an exercise price of \$0.74. The options will vest in equal tranches on May 4, 2023, 2024 and 2025 and will expire on May 4, 2026.
- 300,000 stock options to certain employees under the stock option plan with an exercise price of \$0.64. The options vested immediately on June 30, 2022 and were fully exercised on July 14, 2022.
- 55,000 stock options to certain officers and consultants under the stock option plan with an exercise price of \$0.82. The options will vest in equal tranches on August 10, 2023, 2024 and 2025 and will expire on August 10, 2026.
- 120,000 stock options to a consultant with an exercise price of \$0.82. The options will vest in equal tranches on November 10, 2022, February 10, May 10, and August 10, 2023. These options are set to expire on August 10, 2026.

All outstanding options were granted at an exercise price not less than fair market value of the stock on the date of issuance.

The Company has a policy of reserving up to 10% of the outstanding common shares for issuance to eligible participants. As at December 31, 2022, there were 3,880,447 (2021: 3,641,688) common shares reserved for this purpose.

A summary of the Company's outstanding stock options as at December 31, 2022 and 2021 and changes during these years is presented below.

	2022		2021	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Outstanding, January 1	1,803,481	0.83	1,373,333	0.93
Options granted	993,715	0.72	608,315	0.63
Options exercised	(487,598)	0.66	(59,034)	0.59
Options expired	(574,388)	1.03	(119,133)	1.17
Outstanding December 31	1,735,210	0.75	1,803,481	0.83
Unvested options	1,034,263	0.67	1,002,939	0.66
Outstanding and exercisable, December 31	700,947	0.81	800,542	1.03

The exercise prices for options outstanding at December 31, 2022 were as follows:

Exercise price:	All options		Exercisable options	
	Number	Weighted average remaining contractual life (years)	Number	Weighted average remaining contractual life (years)
\$0.49	160,000	0.6	160,000	0.6
\$0.52	6,240	1.8	4,160	1.8
\$0.57	301,876	2.3	86,736	2.3
\$0.59	373,679	1.5	244,276	1.5
\$0.69	30,000	1.8	15,000	1.8
\$0.74	468,880	3.3	-	-
\$0.82	160,000	3.6	-	-
\$0.93	43,760	2.6	-	-
\$1.50	190,775	0.4	190,775	0.4
Total	1,735,210	2.2	700,947	1.1

The weighted average fair value of the options granted during the year that were valued using the Black-Scholes option pricing model was \$0.26 (2021: \$0.26). The fair value of the options granted and valued using the Black-Scholes option pricing model were valued with the following weighted average assumptions:

	2022	2021
Risk-free interest rate	2.93%	0.63%
Expected life (years)	1.76	1.86
Volatility in the price of the Company's common shares	64%	84%
Dividend yield rate	0.00%	0.00%

<i>Warrants</i>	Number of warrants	Weighted average exercise price	Value
		\$	\$
Outstanding January 1, 2021	3,036,237	1.69	1,195,396
Warrants expired	(368,627)	0.25	(240,861)
Outstanding December 31, 2021	2,667,610	1.25	954,535
Warrants expired	(2,667,610)	1.25	(954,535)
Outstanding December 31, 2022	-	-	-

In November 2021 the outstanding warrants were modified and extended. This amendment included an extension of the expiry date from November 15, 2021 to June 15, 2022 as well as a re-price of the warrants to 1.25.

19. Earnings per share

The calculation of basic and diluted earnings per share for the year ended December 31, 2022 was based on a weighted average number of common shares outstanding of 38,151,602 (basic & diluted) (December 31, 2021: 31,415,175 basic and diluted). Both calculations of diluted earnings per share did not include outstanding stock options (nor warrants for the 2021 calculation) because they would be anti-dilutive.

20. Disaggregation of revenue

The Company has one operating segment. The following revenue is based on the geographical location of customers. All non-current assets reside in Canada, except for:

- Property and equipment valued at \$5,018 (Denver CO, USA) and \$6,087 (Frankfurt, Germany)
- Leased premises valued at \$226,758 (Frankfurt, Germany)

	For the year ended December 31	
	2022	2021
	\$	\$
United States & Mexico	12,224,340	4,428,683
Asia	975,081	602,743
China	1,963,049	2,051,290
Middle East	607,445	1,006,363
Canada	2,900,423	1,976,939
Australia	472,278	267,700
Africa	495,874	549,019
Europe	4,069,501	359,306
South/Central America	171,169	76,646
Total	23,879,160	11,318,689

The following shows revenue per major product and service categories.

	For the year ended December 31	
	2022	2021
	\$	\$
SaaS	8,157,886	5,993,521
Hardware	4,720,204	3,394,228
Licensing	9,101,130	1,551,000
Technical Services	1,899,940	379,940
Total	23,879,160	11,318,689

SaaS is the recurring revenue from the Company's products that allow customers to utilize and analyze data they receive from units, use of functions such as the satellite phone and the sale of weather data collected by units. These fees are recognized as the service is provided each month.

Hardware includes the income from hardware sales and related parts required to install the unit, spare units, spare installation parts, and Underfloor Stowage Units.

Licensing includes sales of modems with a related manufacturing license fee.

Technical Services includes services offered by the Company, including repairs and other expertise. The Company has not disclosed the transaction price allocated to remaining performance obligations for SaaS and Technical Services, as revenue for these performance obligations is recognized using the practical expedient to recognize revenue at the amount to which the Company has a right to invoice.

The undelivered amount of revenue related to contracted yet undelivered hardware and licenses for which a purchase order has been received was \$3,106,383 CAD as of December 31, 2022.

Major customers

Revenues from the two largest customers represent approximately 46.1% of the Company's total revenues for the year ended December 31, 2022 (2021: 28.3%).

21. Distribution expenses

For the year ended December 31

	2022	2021
	\$	\$
Salaries and benefits	4,136,208	3,294,529
Stock based compensation	57,674	47,058
Contract labour	880,600	661,853
Office	219,720	231,233
Travel	266,070	107,017
Equipment and maintenance	177,730	39,147
Depreciation and amortization	204,962	365,120
Marketing	158,281	40,737
Other government grants	(222,108)	(455,987)
Other	32,530	(460,965)
Total	5,911,667	3,869,742

Other government grants relate to amounts received from the United States government under the Employee Retention Tax Credit ("ERTC"), the Canadian government under the Scientific Research and Experimental Development ("SRED") tax refund program and the Alberta government under the Alberta Innovates PDP program of \$422,603, \$148,637 and \$112,500 respectively. These government grants are included in Distribution, Administration and Research, development and certification engineering.

22. Administration expenses

For the year ended December 31

	2022	2021
	\$	\$
Salaries and benefits	1,712,234	1,197,969
Stock based compensation	101,355	126,601
Contract labour	1,179,042	720,439
Office	672,276	570,779
Legal fees	173,751	289,829
Audit and accounting	350,840	242,939
Investor relations	145,091	126,500
Travel	153,295	58,011
Equipment and maintenance	348,842	307,012
Depreciation and amortization	273,445	101,533
Other government grants	(48,258)	(368,392)
Other	20,379	10,489
Total	5,082,292	3,383,709

23. Research, development and certification engineering expenses

For the year ended December 31

	2022	2021
	\$	\$
Salaries and benefits	4,359,273	4,247,751
Stock based compensation	19,870	20,432
Contract labour	441,551	319,409
Office	138,624	206,066
Travel	54,035	24,638
Equipment and maintenance	118,477	44,842
Components	45,186	17,368
Depreciation and amortization	181,632	226,236
Grant WINN loan (note 15)	(324,926)	(246,153)
Other government grants	(413,374)	(419,292)
Other	139	5,904
Total	4,620,487	4,447,201

24. Finance income and finance costs

For the year ended December 31

	2022	2021
	\$	\$
Interest income on bank deposits	26,576	17,581
Gain on modification of government loans	-	84,938
Net foreign exchange gain	13,741	1,980
Finance income	40,317	104,499
Bank service charges	39,217	32,797
Interest on lease liability	110,426	105,293
Interest on BDC loan	14,938	8,760
Government grant interest accretion	459,642	433,274
Debenture interest expense and accretion	-	152,248
Finance costs	624,223	732,372

25. Income tax expense

Current Tax Expense

	2022	2021
	\$	\$
Current income tax expense	10,541	252
Deferred income tax expense	-	-
	10,541	252

Deferred Tax Expense

Deferred tax liabilities

	2022	2021
	\$	\$
Recognized deferred tax assets (liabilities) are attributable to the following:		
PP&E	(25,929)	(110,366)
Reserves	-	(55,098)
Non-capital loss carry-forwards	25,929	165,464
Total	-	-

Unrecognized deferred tax assets

Deferred tax assets have not been recognized in respect of the following deductible temporary differences:	2022 \$	2021 \$
Intangible assets	60,550	-
Lease liabilities	2,477,337	2,502,308
Reserves and FX	929,784	9,804
Non-capital loss carry-forwards	45,488,281	45,166,302
Share issue costs	193,705	398,552
Scientific research and experimental development expenditures	24,649,934	24,277,407
Total	73,799,591	72,354,373

The Company has non-capital losses for income tax purposes of approximately \$45,600,688 which are available to be applied against future year's taxable income. The benefit of these non-capital losses has not been recognized in the consolidated financial statements because it is not probable that future taxable profit will be available against which FLYHT can use the benefits. Of these losses, \$472,587 were incurred in the US and \$37,185 were incurred in Germany, both of which can be carried forward indefinitely. The remaining losses of \$45,090,896 were incurred in Canada and will begin to expire in 2027.

Reconciliation of effective tax rate	2022 \$	2021 \$
Income (loss) before tax	(992,492)	(5,858,954)
Tax Rate	23%	23%
Expected income tax recovery	(228,273)	(1,347,560)
Change in rate	-	-
Non-deductible (taxable) amounts	46,245	6,187
Stock based compensation	41,147	44,641
Change in unrecognized temporary differences	151,422	1,296,984
	10,541	252

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 39% (2021: 30%) of the Company's 2022 revenue is attributable to transactions with a single customer. Historically there has not been a significant geographic concentration of outstanding balances, which typically has a minimizing impact on the Company's credit risk, however 63% of the receivables balances outstanding as of December 31, 2022 were concentrated within the USA, which would attribute more geographic risk than FLYHT's receivables profile usually contains.

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

The aging of receivables at the reporting date was:

December 31, 2022	0-30 days	31-60 days	61-90 days	91+ days	Total
	\$	\$	\$	\$	\$
Accounts receivable	5,006,405	106,223	24,026	183,179	5,319,833
Impairment	(9,450)	-	-	(183,045)	(192,495)
Net receivable	4,996,955	106,223	24,026	134	5,127,338

December 31, 2021	0-30 days	31-60 days	61-90 days	91+ days	Total
	\$	\$	\$	\$	\$
Accounts receivable	1,112,773	73,709	36,583	628,353	1,851,418
Impairment	(407)	(814)	(1,298)	(258,426)	(260,945)
Net receivable	1,112,366	72,895	35,285	369,927	1,590,473

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, 2022 and 2021 was:

	2022	2021
	\$	\$
Balance, January 1	260,945	1,003,574
Provision	177,977	(233,811)
Recovered	(146,244)	(246,195)
Amounts written off	(100,183)	(262,623)
Balance, December 31	192,495	260,945

Liquidity risk

The Company's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or risking damage to the Company's reputation. The Company manages its liquidity risks by having cash available, maintaining a conservative capital structure, prudently managing its credit risks, and by maintaining its relationship with the capital markets to meet any near-term liquidity requirements.

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

December 31, 2022	Less than 1 year	1-2 years	2-5 years	> 5 years	Total
	\$	\$	\$	\$	\$
Accounts payable	2,161,822	-	-	-	2,161,822
Compensation and statutory deductions	323,685	-	-	-	323,685
Accrued liabilities	250,762	-	-	-	250,762
Lease payments	436,581	455,774	1,165,601	1,103,715	3,161,671
Loans and borrowings	851,387	1,295,757	3,075,971	1,418,268	6,641,383
Total	4,024,237	1,751,531	4,241,572	2,521,983	12,359,323

Refer to note 2(d) for additional details relating to the effects of COVID-19.

Currency risk

A significant portion of the Company's revenues and a portion of its expenses are denominated in U.S. dollars. Management estimates that a 1% weakening of the Canadian dollar relative to the U.S. dollar would increase net earnings by approximately \$165,821 (2021: \$112,535) and a strengthening of the Canadian dollar would decrease net earnings by approximately \$165,821 (2021: \$112,535).

With the 2022 acquisition of CrossConsense, a portion of the Company's 2022 revenues and expenses were denominated in euros. Management estimates that a 1% weakening of the Canadian dollar relative to the euro would increase net earnings by approximately \$15,650 and a strengthening of the Canadian dollar would decrease net earnings by approximately \$15,650.

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

The Company has exposure to foreign exchange risk for working capital items denominated in U.S. dollars. At December 31, 2022, working capital denominated in U.S. dollars was approximately positive \$3,092,158 (2021: positive \$1,767,876). As a result, a 1% weakening of the Canadian dollar would increase net earnings by approximately \$30,922 (2021: \$17,679) and a strengthening of the Canadian dollar would decrease net earnings by approximately \$30,922 (2021: \$17,679).

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

The Company has exposure to foreign exchange risk for working capital items denominated in euros. At December 31, 2022, working capital denominated in euros was approximately positive \$555,026. As a result, a 1% weakening of the Canadian dollar would increase net earnings by approximately \$5,550 and a strengthening of the Canadian dollar would decrease net earnings by approximately \$5,550.

In respect of other monetary assets and liabilities denominated in foreign currencies, the Company ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

Interest rate risk

Borrowings issued at variable rates result in exposure to interest rate risk, which would affect future cash flows if interest rates were to rise. Fluctuations in the prime interest rate could result in exposure for the Company with regards to the bank credit facility, which bears interest at Canadian chartered bank prime plus 1.5%. The Company's exposure to interest rate risk as at December 31, 2022 and 2021 was minimal as the credit facility had not been drawn.

Market risk

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

Fair values versus carrying amounts

As the WINN and SADI contributions are repayable loans at below market rates, the carrying amounts have been determined by employing a discount rate based on debt market conditions as well as factors specific to the Company's operations and financial position (note 15). The fair values of financial assets and all other liabilities approximate carrying values due to the short-term nature of the instruments.

Capital management

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

27. Government grants

Contributions of \$947,368 were received from WINN for the year ended December 31, 2022 (2021: \$1,025,370).

In the year ended December 31, 2022, the Company recognized \$422,603 in government financial relief related to COVID-19 (2021: \$1,243,671). \$222,108, \$48,258 and \$152,237 have been applied to offset associated expenses in Distribution, Administration, and Research & Development expenses respectively.

The \$324,926 grant portion of the contributions received from WINN for the year ended December 31, 2022 (2021: \$246,153) was offset against associated expenses in Research & Development expense.

28. Related parties

Since 2020, a company related to an officer of FLYHT has provided marketing services to the Company. A company related to a director of FLYHT provided financial consulting services from Q3 2021 to Q2 2022. All of the transactions with both related parties were at terms equivalent to those that prevail in arm's length transactions.

	For the year ended December 31	
	2022	2021
Amounts included in:	\$	\$
Contract labour	153,271	185,970
Accounts payable	26,885	32,972

Transactions with key management personnel

Key management personnel include all persons with direct or indirect authority and responsibility for planning, directing and controlling the activities of the Company, and includes directors and the FLYHT executive team.

In addition to salary and variable compensation, the Company also provides non-cash benefits to key management personnel.

Compensation for this group comprised:

	2022	2021
	\$	\$
Salary	1,669,448	1,453,932
Director fees	173,085	176,233
Variable compensation	57,578	98,500
Share-based payments	93,935	114,066
Short-term employee benefits	156,439	134,620
Total	2,150,485	1,977,351

Directors of the Company control 2.7% (2021: 2.9%) of the voting shares of the Company.

Subsidiaries

	Country of Incorporation	Ownership interest
FLYHT Inc.	United States	100%
AeroMechanical Services USA Inc.	United States	100%
FLYHT Corp.	Canada	100%
FLYHT India Corp.	Canada	100%
FLYHT Germany GmbH	Germany	100%
CrossConsense GmbH & Co. KG	Germany	100%
CrossConsense Services GmbH	Germany	100%

29. Contractual Arrangement

Certain of the Company's sales contracts require that, in the event the Chinese government restricts use of the Iridium satellite network, the Company may be required to repurchase, at discounted rates, certain AFIRS units. The Chinese government has continued with a process of issuing waivers for the use of the Iridium frequency to aircraft needed for usage in China. This is the same process that they have used for many years, but more recently they moved to issuing three-year grants to Iridium Satellite LLC. versus a yearly grant that they had in the past. Given the prevalent use of Iridium services in China and the extensions of waivers reported by Iridium Satellite LLC, the likelihood of a liability under these contracts is considered to be remote.

CORPORATE INFORMATION

Registrar and Transfer Agent

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1.587.885.0960
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Share Listing

Shares are traded on the TSX Venture Exchange (TSX.V: FLY) and the OTCQX Marketplace (OTCQX: FLYLF)

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President, Marlin Ventures Ltd.
President, General Aero Company
Director
Partner, Nanaimo Law
Director

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Alana Forbes
Darrel Deane
Scott Chambers
Gurjot Bhullar

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Chief Financial Officer
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