



# 2016

FLYHT AEROSPACE SOLUTIONS LTD.

## MANAGEMENT DISCUSSION AND ANALYSIS





# TO OUR SHAREHOLDERS

FLYHT HAD A GREAT YEAR AND MADE SIGNIFICANT PROGRESS IN 2016. WE PRODUCED SEVERAL "BESTS" AND "FIRSTS"!

- Delivered our best revenue year ever: for the first time, FLYHT strung together three consecutive money-making quarters for our first ever EBITDA positive year!
- Achieved our best revenue quarter ever: Q4 2016.
- Beat our AFIRS™ unit contract sales budget by 35% - aided by a very strong China sales market.
- Grew Parts sales nearly 100% over 2015.
- Rolled out a new cloud-based version of UpTime™ Cloud and launched recurring data services in China: key to our continued growth.
- Successfully executed our 2016 goals and set aggressive goals for 2017.

The 2016 year ended with a record revenue quarter of \$4.1 million, slightly higher than the previous record quarter (Q3 2016), and 10% higher than Q4 of 2015. This placed revenue for the year at \$14.3 million, or 37% higher than 2015, previously our best revenue year. When the one-time Intellectual Property (IP) license sale income of \$3.3 million is included, overall 2016 annual income was \$17.6 million. More importantly, FLYHT posted a profit for the second, third and fourth quarters of 2016 and an overall EBITDA \* gain for 2016 of over \$2.5 million.

Dominating the year's revenue is \$5.8 million of Parts sales, which includes our license fee receipts from our original equipment manufacturer (OEM) agreement for sales onto the Airbus A320 and A330 platforms. Revenue from this channel, along with the IP license sale and the private placement equity raise of \$5.1 million in May, enabled FLYHT to re-pay \$5.4 million in matured debentures in 2016 with no impact to business.

Revenue in 2016 from our AFIRS sales grew by 17% over 2015, reaching nearly \$4 million. Our Voice and Data Services component grew more slowly, at 10% over 2015. We added significantly more recurring data business than is reflected in this 10% growth number, but we encountered headwinds in our established base, in several cases due to impacts to our customers from weakness in the oil and gas market. We have set an aggressive goal for growth in 2017 in this area of revenue.

**Each year we create our "FLYHT Plan", FLYHT's annual goals. In 2016, we achieved most of our goals.**

- FLYHT logged record revenues in 2016. We increased our revenues by 37% over 2015, beating the 30% target that we had set for the year.
- We deployed our "Adopt Excellence" high level strategy, which is our roadmap to profitability and stakeholder value. We use this plan to communicate priorities and vision within the Company.
  - o We strengthened the balance sheet, which we accomplished by re-paying \$5.4 million in matured debentures in the year and by securing a repayable government contribution for \$2.35 million. Our resulting debt is low.
  - o Other particularly successful elements of "Adopt Excellence" in 2016 are the expansion of recurring data services into China and the controlling of costs and improvement of efficiencies within the Company. While we did reorganize and change some of the players within FLYHT, we essentially remained headcount neutral through 2016, despite our significant revenue growth in the year.

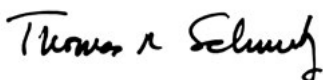
\* EBITDA: defined as earnings before interest, income tax, depreciation and amortization.

- FLYHT had a China FLYHT Plan goal in 2016 to remain vigilant to help customers there meet the 2017 satellite communication mandate and to complete an AFIRS repair depot.
  - o FLYHT had a productive year in China in 2016, closing eight new contracts.
  - o FLYHT launched our recurring revenue services with one airline customer. Additional customers have been turned on for trial purposes in anticipation of securing future data service contracts.
  - o We established an agreement with GAMECO, a major maintenance, repair and overhaul center and have made significant progress preparing the facility that will handle all FLYHT's in-country warranty work as well as post-warranty repair.
  - o China remains our largest growth area and our contractual backlog there can represent significant future revenues for FLYHT as our partners execute their business plans and outfit their fleets. FLYHT is still pursuing opportunities in the country for both AFIRS hardware sales and the corresponding recurring data services.
- FLYHT met its goal by developing and deploying a cloud-based server called UpTime Cloud. We have deployed it for several accounts and will ultimately migrate all users from the legacy system to this new and exciting platform. We are engaged in launching all new services in China on this platform, which offers significant enhancements in the user interface and functionality over the legacy platform. We will continue to add capability and aircraft types to this new service through this year and beyond.
- FLYHT identified and hired the resources for a 24x7 service call center in 2016. The center is now functional and is providing level-one service, augmenting our Calgary-based team to provide 24-hour support to our clients, seven days per week. We have invested significant resources and made several improvements in the customer account management resources in the past year and the surveys that we conduct indicate our customer base acknowledges and appreciates the continuous improvements we target in this area.

One goal not accomplished in 2016 was the acquisition of new OEM business. We continue to very actively pursue a new OEM position and this remains a goal in our 2017 FLYHT Plan. In addition to a new OEM, FLYHT set goals to acquire new business in southeast Asia, Europe and the Middle East to continue to diversify our customer base. Of course, we want to continue the success we have demonstrated in China and have a goal to secure a major recurring service deal there. We have also established goals to remain EBITDA positive in 2017 and to grow our overall revenues and our recurring monthly revenues by at least 25% over December 2016. Growing recurring revenues is now the centerpiece of "Achieve Excellence - 2017". Finally, from a capital markets perspective, we will continue to focus on growing the public value of the Company through strategic business initiatives. We believe these are a challenging set of goals to guide us through 2017 and, when combined with our internal goals, we feel like 2017 will be pivotal in our quest to be a strong industry player.

FLYHT expects 2017 to also bring new opportunities given our demonstrated, commercially available expertise in real-time access to flight recorder data. We are cooperating with several OEMs who see FLYHT as the standard bearer and industry expert in this area. New mandates from the International Civil Aviation Organization (ICAO) will require timely access requirements for new airframes and FLYHT's unique system can provide a means of compliance.

On behalf of FLYHT, I want to convey the very positive spirit that exists within the Company right now. We are excited with our prospects and are continuously looking for ways to improve everything that we do. I know from my various contacts with stockholders and stakeholders that there is a large amount of goodwill for FLYHT, despite the long runway that the Company has been navigating. I'd like to thank you for your patience, for your support and I look forward to being able to discuss several exciting opportunities as they manifest.



Thomas R. Schmutz  
Chief Executive Officer

# Management Discussion & Analysis

This management discussion and analysis (“MD&A”) is as of April 4, 2017 and should be read in conjunction with the audited annual consolidated financial statements of FLYHT Aerospace Solutions Ltd. (“FLYHT” or the “Company”) as at and for the years ended December 31, 2016 and 2015 and the accompanying notes. Additional information with respect to FLYHT can be found on SEDAR at [www.sedar.com](http://www.sedar.com). The Company has prepared its December 31, 2016 consolidated financial statements and the notes thereto in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”). The Company’s accounting policies are provided in note 3 to the consolidated financial statements.

## Non-GAAP Financial Measures

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

## Forward-Looking Statements

This discussion includes certain statements that may be deemed “forward-looking statements” that are subject to risks and uncertainty. All statements, other than statements of historical facts included in this discussion, including,

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

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

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

## FLYHT Overview

FLYHT is a leading provider of real-time aircraft intelligence and cockpit communications for the aerospace industry. More than 70 customers, including airlines, leasing companies and original equipment manufacturers, have installed our systems in order to increase safety, improve operational efficiencies and enhance profitability. FLYHT's tools deliver data and voice communication between the aircraft and operations groups on the ground, on demand. The Company's products are available for commercial, business and military aircraft. FLYHT's proprietary technology, the Automated Flight Information Reporting System (AFIRS™), operates on multiple aircraft types and provides functions such as safety services voice and text messaging, data collection and transmission, and on-demand streaming of flight data recorder (black box), engine and airframe data. AFIRS has flown over 2.5 million aggregate flight hours and 1.7 million flights on customers' aircraft. FLYHT holds supplemental type certificates (STC) which allow for the installation of AFIRS on 95% of transport category aircraft.

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

## AFIRS™ and UpTime™

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

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

## FLYHTStream™

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

## FLYHTFuel™

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

## FLYHTASD™

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

## **FLYHTHealth™**

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

## **FLYHTLog™**

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

## **FLYHTMail™**

Two-way text messaging to the flight deck is established through the multi-control display unit (MCDU) or an iPad application. Updated crew assignments, crew repositioning and tail swaps can be sent to the aircraft directly and immediately. Text messaging is highly useful to manage diversions due to weather, mechanical occurrences or other unforeseen situations.

## **FLYHTVoice™**

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

FLYHT has discontinued active sales of the Dragon™. This decision will not impact FLYHT's current Dragon customers.

## **Underfloor Stowage Unit**

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

## **System Approvals**

FLYHT is TCCA Approved Manufacturer, Approved Maintenance Organization and an EASA and a CAAC Part 145 Repair Facility. FLYHT is part of a select group of Canadian companies who are approved by TCCA as a Design Approval Organization (DAO). The Company also holds multiple STCs to make appropriate modifications, such as installing FLYHT's AFIRS technology, to an aircraft's approved design.

FLYHT has received STC approvals from TCCA, FAA, EASA, CAAC, ANAC and DGAC for various aircraft models depending on customer requirements.

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

As a component of its DAO status, the Company employs the services of a delegated engineer, allowing for the approval of changes and the systems and electrical design aspects of an airworthiness certification. If an issue is encountered during the STC process, the delegate has the authority to approve necessary changes and continue the process without the involvement of an external party.

The process to receive an STC takes some time, but in all cases, it starts with an STC application through the TCCA, FAA or EASA. FLYHT typically starts the process with TCCA by opening an application with the regulator before an STC package is created. The data package is prepared, including engineering documents outlining how AFIRS equipment is substantiated and installed on the aircraft, and the package is submitted to TCCA for approval.

Once approved, first-of-type ground and flight testing takes place to fulfill regulatory requirements. FLYHT requires access to the proposed types and models of aircraft, which is done in cooperation with an existing or potential customer.

After all tests are complete, FLYHT submits an application for the activation and data package to TCCA confirming all regulatory requirements have been met and the AFIRS unit is fit for operation on that aircraft type as designed. From there, TCCA approves the submission and an STC is issued.

To acquire an STC from a different national regulator, FLYHT submits an application through TCCA to a regulator such as the FAA or EASA with the STC data package previously approved by TCCA. The regulator then reviews the package and issues an STC for that country based on their validation of the TCCA STC.

Timelines required for the TCCA approval process will vary depending on aircraft and workloads, but typically take about three to four months, with an additional three to eight months if an STC is required from another regulator like the FAA or EASA.

TCCA		FAA		EASA		CAAC		ANAC		
220	228	220	228	220	228	220	228	220	228	
A	A	A	A	A	A	A	A			Airbus A319, A320, A321
A										Airbus A330
	A		A						A	ATR42 -300
	A		I							ATR42 -500
	A		A						A	ATR-72 -100, -200
					A*					ATR42-500 "600 Version" *STC Twenty One
					A*					ATR72-212A "600 Version" *STC Twenty One
A		A		A		A				Boeing B737 -200
A	A	A	A	A	I	A	I		A	Boeing B737 -300, -400, -500
A		A		A		A				Boeing B737 -600
A	A	A	A	A	I	A	A		A	Boeing B737 -700, -800
			I				I			Boeing B737 -900
	A						I			Boeing 747-200
A	A	A	A	A	I	A	A			Boeing 757 -200
A	A	A	A	A	I	A	A			Boeing 767 -200, -300
	A		A							Boeing B777
A	A*	A	I*	A	A*					Bombardier DHC 8 -100, -200, -300 *Avmax
A	P						I			Bombardier DHC 8 -400
A	A	A		A			A			Bombardier CRJ 100, 200, 440
	A						A			Bombardier CRJ -700, 900
A		A								McDonnell Douglas DC-10 (KC-10 military)
			A							McDonnell Douglas MD-82
	A		A							McDonnell Douglas MD-83
A										Fokker 100
A	A	A	A	A	A					Hawker Beechcraft -750, 800XP, 850XP, 900XP
A										Viking Air DHC -7 (LSTC)
	P		I				I			Embraer EMB 190
		A								Embraer Legacy 600 and EMB – 135/145

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

A = Approved, P = Pending (We have received a Provisions STC and are in the final stages before receiving a full STC), I = In Progress.

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

This TSO certification confirms that AFIRS 228S meets all product requirements, including DO-262B Minimum Operational Performance

Standards for Avionics Supporting Next Generation Satellite Systems (NGSS), for an Iridium SATCOM supporting Future Air Navigation System (FANS) -1/A capability. FANS allows for and supports improved data and surveillance of aircraft flying in remote regions and over the oceans. Additionally, the certification enables voice and data services for Air Traffic Control (ATC), Aeronautical Operational Control (AOC) and Air-to-Air Communication (AAC) using Iridium's global satellite network. The system also provides ACARS over Iridium messaging capability.

## Trends and Economic Factors

FLYHT examines the results of measurements made by leading aviation associations and corporations in order to gain insight on the status of the industry.

### The Aviation Industry in 2016

The International Air Transport Association's (IATA) quarterly industry results, measured in Revenue Passenger Kilometres (RPK) and Freight Tonne Kilometres (FTK) are the passenger and freight contributions to airline revenue and are significant markers to determine the health of the industry. Passenger traffic (measured in RPK) saw a 6.3% increase in 2016 compared to the previous year. 2016 results were also ahead of the ten-year average growth rate of 5.5%<sup>1</sup>. All regions saw demand growth in passenger traffic, and load factors that measure the capacity utilization of flights were at a record annual high of 80.5%. 700 new routes were added world-wide and 3.7 billion passengers flew in the year. Demand in domestic markets at 5.7% was slightly lower than international travel at 6.7%. Global freight traffic (measured in FTK) increased by 3.8% in 2016, which almost doubled the industry's 2.0% average growth in the past five years<sup>2</sup>. All regions, outside of Latin America, experienced positive freight growth. The lead region was Europe at 7.6%, which accounted for almost half of the total global annual increase in freight demand, and the Middle East was in second place, with an increase of 6.9%, even though the region experienced its slowest pace of growth since 2009.

Results from large commercial aircraft manufacturers were mixed in 2016, although their backlog and projections remain positive going forward. Airbus continued its growth with a new record for aircraft deliveries of 688 aircraft for 82 customers, an increase from 635 aircraft to 85 customers in 2015<sup>3</sup>. At the end of 2016, Airbus' overall backlog stood at 6,874 aircraft valued at US \$1 trillion at list prices. On March 2, 2016, construction of the Airbus China A330 completion and delivery center started in Tianjin, where A330 aircraft will be finished and delivered to Chinese clients. It is the company's first completion and delivery center for wide-body aircraft outside of Europe<sup>4</sup>. Boeing's deliveries decreased from 762 aircraft in 2015 to 748 in 2016<sup>5</sup>. Boeing introduced and shipped 82 B737 MAX, a re-engined version of their successful B737 which helps their customers save fuel through new engine technologies. Boeing published their backlog at the end of 2016 as 5,712 aircraft including 4,452 B737 aircraft and 700 B787 aircraft. This backlog represents orders of nearly US \$500 billion<sup>6</sup>. Embraer continued to see improved results from 2015 and delivered a total of 108 commercial and 117 executive jets (73 light and 4 large), in 2016<sup>7</sup>. The total aircraft delivered is the highest volume of deliveries in six years. The manufacturer has a backlog of 450 aircraft. Bombardier delivered less aircraft than the previous year, a total of 249 business and commercial jets compared to 275 aircraft in 2015. While business jet deliveries decreased 36%, commercial deliveries increased 10% over the previous year<sup>8</sup>. Bombardier's backlog at the end of 2016 is \$15.4 billion in business jets and 436 commercial aircraft.

Results released for the general aviation industry were weak because of the continued downturn in the economy. The General Aviation Manufacturers Association (GAMA) reported that numbers in worldwide general aviation airplane shipments in 2016 were down 3.9% at 2,241 compared to 2,331 in 2015<sup>9</sup>.

## Future Industry Projections

According to IATA's 2017 outlook<sup>10</sup>, the global aviation industry is in the middle of what is expected to be the most profitable three-year span of its history, and is expected to retain USD \$7.54 for every passenger carried in 2017. IATA reports that the industry is expected to add 1,700 new aircraft in 2017, expanding the global commercial fleet by 3.6% to 28,700. In addition, flights in 2017 are expected to increase 4.9% over 2016. Margins remain tight for airlines on their route to profitability depending on the regions they operate in. African, Middle Eastern and Latin American carriers remain close to or below break-even (many airlines are at a loss). While airline profits in North America are significantly ahead of other regions.

The world's two largest airplane manufacturers, Boeing and Airbus, predict strong industry growth in new aircraft shipments in the next twenty years. Boeing predicts a need for 39,000 new aircraft worth US \$5.9 trillion<sup>11</sup> and Airbus' states the demand for 33,000 aircraft worth US \$5.2 trillion<sup>12</sup>. Asia is expected to become the world's leading travel market and will constitute 48.7% of global passenger traffic by 2035<sup>13</sup>, with China needing 1,500 new widebody aircraft and 5,100 single-aisle airplanes.

With the growth in the industry, the aviation market is increasingly relying on satellites for safety and operations as well as cockpit communications. According to Euroconsult, a global consulting and research firm, the biggest use of satellites is for communications and is continuing to grow<sup>14</sup>. They forecast the launch of 1,450 satellites between 2016 and 2025, a market of \$250 billion<sup>15</sup>.

- 1 <http://www.iata.org/pressroom/pr/Pages/2017-02-02-01.aspx>
- 2 <http://www.iata.org/pressroom/pr/Pages/2017-02-01-01.aspx>
- 3 <http://www.airbus.com/newsevents/news-events-single/detail/airbus-achieves-targets-proving-ramp-up-readiness-in-2016/>
- 4 <http://www.airbus.com/newsevents/news-events-single/detail/airbus-achieves-targets-proving-ramp-up-readiness-in-2016/>
- 5 <http://boeing.mediaroom.com/2017-01-25-Boeing-Reports-Fourth-Quarter-Results-and-Provides-2017-Guidance>
- 6 <http://boeing.mediaroom.com/2017-01-25-Boeing-Reports-Fourth-Quarter-Results-and-Provides-2017-Guidance>
- 7 <http://www.embraer.com/Documents/noticias/001%20embraer%20deliveries%204q16-ins-vpf-i-17%20vale%20este.pdf>
- 8 <http://ir.bombardier.com/en/press-releases/press-releases/67577-bombardier-reports-fourth-quarter-and-full-year-2016-results>
- 9 <http://gama.aero/media-center/press-releases/content/gama-unveils-2016-year-end-aircraft-shipment-and-billings-number>
- 10 <http://www.iata.org/whatwedo/Documents/economics/IATA-Economic-Performance-of-the-Industry-end-year-2016-report.pdf>
- 11 <http://www.boeing.com/commercial/market/long-term-market/world-regions/#/cis>
- 12 <http://www.airbus.com/company/market/global-market-forecast-2016-2035/>
- 13 <http://www.boeing.com/commercial/market/long-term-market/world-regions/#/cis>
- 14 <http://www.euroconsult-ec.com/research/satellite-value-chain-2016-extract.pdf>
- 15 [http://www.euroconsult-ec.com/13\\_September\\_2016](http://www.euroconsult-ec.com/13_September_2016)



## FLYHT's Market

FLYHT's technology is available to a number of sectors within the global aerospace industry. AFIRS technology can be installed on commercial, business or military aircraft. FLYHT's primary sales target has been commercial passenger and freight air transport customers, and the secondary targets are business jet aircraft (used for business and personal travel) and military air transport aircraft that require AFIRS functionality. FLYHT's business relies primarily on retrofitting existing aircraft to provide recurring, real-time aircraft data services. It is FLYHT's objective to win additional positions on new aircraft, with a goal to fit AFIRS equipment on the aircraft during production so that services can be turned on immediately after delivery to the customer.

FLYHT remains an industry leader in providing increased operational control and aircraft situational awareness. The Company has focused on the development and implementation of a cloud-based UpTime software over the past year and a half. UpTime Cloud marks an improvement in the Company's current technology with real-time systems diagnostics. The technology relies on the use of satellites for real-time communication with the aircraft. The FLYHTHealth program within UpTime Cloud is significant in its ability to detect and notify the airline of any problems while the aircraft is in flight and allow the operator to prepare for repair before the aircraft lands, thereby reducing the financial impact of unscheduled maintenance. FLYHT has participated in industry events and working groups to demonstrate AFIRS' capabilities and the real-time data streaming enabled by FLYHTStream. FLYHT will continue to participate in industry working groups to advance engineering and technical requirements and prepare for future development of the AFIRS product line to meet industry needs.

The strengthening of the Canadian dollar relative to the U.S. dollar throughout 2016 had a negative impact on the Company's revenue and income compared to 2015. As a result of these currency movements, the Company's revenues, which are substantially all denominated in U.S. dollars, were lower than they would have been had the foreign exchange rates not changed. It is the standard of the aviation industry to conduct business in U.S. dollars. While the majority of the Company's operating and overhead costs are denominated in Canadian dollars, a significant portion of the cost of sales, marketing and distribution costs are U.S. dollar denominated, and therefore a natural hedge exists against fluctuations of the Canadian dollar.

## Contracts and Achievements of Fiscal 2016

### Contracts

In February, FLYHT announced a strategic partnership with Flight Data Services Ltd., a global leader in flight data monitoring, to offer a complete flight data acquisition and analysis solution to the aviation industry.

In March, FLYHT announced that contracts had been signed in the six months then ended with six new airlines (four new contracts in 2016 including two in China) that will install AFIRS and/or sign up for UpTime services. The aggregate revenue on all six contracts is expected to be approximately USD \$615,000.

In April, FLYHT announced an order from an OEM partner for USD \$1.2 million in parts with related license fees, for immediate delivery, and signed its third Chinese airline customer of the year to contract. The aggregate revenue from the Chinese customer will be approximately USD \$1 million.

FLYHT signed five new contracts for voice and data services in the second quarter of 2016 with a value of USD \$2.3 million over the term of the agreements.

FLYHT received parts orders from an existing OEM partner for approximately USD \$1.0 million of parts with related license fees.

FLYHT signed one new sales agreement for AFIRS 228 hardware equipment of approximately USD \$227,000 in China.

The Company signed an order for voice and data services for an operator in Africa which will total USD \$156,000.

FLYHT announced updates to customer and parts sales activity in the third quarter of 2016 including parts orders from an existing OEM partner for USD \$1.0 million of parts with related license fees.

FLYHT signed one new hardware agreement for AFIRS 228 in China and one new operator in Africa for voice and data services.

In August, FLYHT announced the launch of real-time data services in China. The undisclosed airline was the first Chinese customer to select data services provided by AFIRS on its fleet of CRJ-900 aircraft. The aggregate data services revenue on this contract is initially valued at USD \$1.05 million.

Subsequent to the end of the third quarter, FLYHT entered into an agreement with an Information Technology Company that implements data solutions for Chinese commercial aviation operators for the sale of the AFIRS 228S with the initial hardware valued at approximately USD \$4.26 million. In November, FLYHT announced an amendment to the contract to increase to an approximate value of USD \$6.94 million.

In November, FLYHT announced a contract with Guangzhou Aircraft Maintenance Engineering Company Limited (GAMECO) to provide repair services to FLYHT's customers in China. GAMECO specializes in aircraft and airborne component MRO.

At the end of the year, FLYHT announced updates from the fourth quarter including receipt of orders from an existing OEM partner for approximately USD \$1.8 million parts with related license fees.

FLYHT also signed two new airline customers in China for AFIRS 228 during the fourth quarter for a total value of approximately USD \$709,000.

During Q4, two existing customers added AFIRS 228 units with voice and data services for revenue value of approximately USD \$811,000.

## Achievements

- In January, FLYHT announced receipt of CAN-TSO-C159b, for AFIRS 228S.
- In January, FLYHT announced the approval of the extension of the debenture conversion expiry date to December 2016 and amendment of the conversion price to \$0.25.
- In February, FLYHT announced that as part of its investor relations strategy for 2016, it would continue to engage the services of The Howard Group Inc. to assist with its investor relations activities.
- In April, FLYHT announced the receipt of the first of two milestone payments of the aggregate \$2.5 million USD license fee due from a technology company the "Licensee". The second milestone was received later in the quarter.
- In May, FLYHT announced that it closed a private placement offering for aggregate consideration of \$5,086,512.
- In May, FLYHT announced STCs for the AFIRS 228. The approved aircraft types include the ATR 42-500 "600 version" and the ATR 72-212A "600 version" from EASA, the Boeing B757-200 aircraft from the FAA and the TCCA STC for the Bombardier DHC 8 -100, 200, 300 series aircraft.
- In June, FLYHT announced appointment of Matieu Plamondon, Vice President Operations and Customer Fulfillment and David Perez, Vice President Sales and Marketing as officers of the Company.
- In the second quarter, FLYHT also received the CAAC STC for the Boeing 767 200 and 300 series.
- In June 2016 FLYHT's outstanding debentures matured and were repaid in full for \$2.5 million.
- During the third quarter, FLYHT received new STCs for the AFIRS 228 from the FAA including the ATR 42-300 and the ATR 72-100/200 aircraft.
- In November FLYHT was awarded a \$2.35 million Western Innovation Initiative (WINN) repayable contribution by Western Economic Diversification Canada.
- In December FLYHT was granted CAAC Part-145 approval by the CAAC. The approval took almost two years to achieve and allows FLYHT to repair AFIRS units and return them to customers in China with an AAC-038 release certificate.
- In December FLYHT's outstanding redeemable debentures matured and were repaid in full for \$3.1 million.
- FLYHT was awarded an STC from the CAAC in December that allows for further installation on the CRJ 100, 200, 440, 700 and 900 aircraft.

# Results of Operations – Years Ended December 31, 2016, 2015 and 2014

## Selected Results

2016	Q4	Q3	Q2	Q1	Total
	\$	\$	\$	\$	\$
Assets	6,516,206	9,189,104	9,655,504	5,803,079	6,516,206
Non-current financial liabilities	974,749	996,121	1,002,872	602,011	974,749
Revenue	4,127,827	4,054,368	3,537,665	2,611,331	14,331,191
Cost of sales	1,034,450	1,346,341	1,278,746	861,965	4,521,502
Distribution expenses	1,424,211	1,101,318	1,248,783	1,132,727	4,907,039
Administration expenses	719,097	626,733	1,103,399	638,427	3,087,656
Research, development and certification engineering expenses	725,739	550,443	336,871	988,176	2,601,229
Income (loss) from operating activities	224,330	429,533	2,793,032	(1,009,964)	2,436,931
Depreciation	18,687	16,302	15,562	16,128	66,679
EBITDA*	243,017	445,835	2,808,594	(993,836)	2,503,610
Income (loss)	79,709	303,890	2,572,061	(1,242,942)	1,712,718
Income (loss) before R&D	805,448	854,333	2,908,932	(254,766)	4,313,947
Income (loss) per share (basic & fully diluted)	0.00	0.00	0.02	(0.01)	0.01
2015	Q4	Q3	Q2	Q1	Total
	\$	\$	\$	\$	\$
Assets	5,478,867	6,140,675	6,344,752	7,752,509	5,478,867
Non-current financial liabilities	390,110	3,267,030	3,053,577	5,407,303	390,110
Revenue	3,769,267	2,519,347	1,598,603	2,569,908	10,457,125
Cost of sales	1,340,513	672,341	562,535	637,901	3,213,290
Distribution expenses	1,084,443	1,142,086	987,330	763,774	3,977,633
Administration expenses	1,573,796	607,755	943,931	551,471	3,676,953
Research, development and certification engineering expenses	689,195	638,104	737,968	737,285	2,802,552
Loss from operating activities	(918,680)	(540,939)	(1,633,161)	(120,523)	(3,213,303)
Depreciation	15,896	13,652	13,707	13,618	56,873
EBITDA*	(902,784)	(527,287)	(1,619,454)	(106,905)	(3,156,430)
Loss	(1,203,998)	(683,224)	(1,943,924)	(60,414)	(3,891,560)
Income (loss) before R&D	(514,803)	(45,120)	(1,205,956)	676,871	(1,089,008)
Income (loss) per share (basic & fully diluted)	(0.01)	0.00	(0.01)	0.00	(0.02)
2014	Q4	Q3	Q2	Q1	Total
	\$	\$	\$	\$	\$
Assets	8,275,546	8,968,372	10,281,225	9,734,630	8,275,546
Non-current financial liabilities	5,506,179	2,728,769	2,433,044	2,262,812	5,506,179
Revenue	2,218,681	1,808,794	1,505,767	1,348,786	6,882,028
Cost of sales	849,221	655,927	604,860	440,043	2,550,051
Distribution expenses	990,650	806,051	816,240	780,050	3,392,991
Administration expenses	780,039	985,756	1,119,379	663,344	3,548,518
Research, development and certification engineering expenses	772,725	848,119	(1,277,790)	434,695	777,749
Income (loss) from operating activities	(1,173,954)	(1,487,059)	243,078	(969,346)	(3,387,281)
Depreciation	1,932	22,127	21,859	19,404	65,322
EBITDA*	(1,172,022)	(1,464,932)	264,937	(949,942)	(3,321,959)
Loss	(1,305,712)	(1,653,147)	(46,925)	(1,273,101)	(4,278,885)
Loss before R&D	(532,986)	(805,028)	(1,324,716)	(838,406)	(3,501,136)
Loss per share (basic & fully diluted)	(0.01)	(0.01)	(0.00)	(0.01)	(0.03)

\*See Non-GAAP Financial Measures

## Weighted Average Shares Outstanding

	2016 \$	2015 \$	2014 \$
Basic	195,070,653	172,423,488	166,441,119
Diluted	195,419,579	172,423,488	166,441,119

## Financial Position

### Liquidity and Capital Resource

The Company's cash at December 31, 2016 decreased to \$709,958 from \$1,301,955 at December 31, 2015. The Company has an available and undrawn operating line of \$250,000 at Canadian chartered bank prime plus 1.5%, secured by assignment of cash collateral and a general security agreement.

At December 31, 2016, the Company had positive working capital of \$1,724,190 compared to negative \$5,413,927 as of December 31, 2015, an increase of \$7,138,117. Neither customer deposits, nor the current portion of unearned revenue are refundable, and if those two items are excluded in the working capital calculation, the resulting modified working capital at December 31, 2016 would be positive \$2,869,324 compared to negative \$3,306,055 at December 31, 2015.

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

The Company granted a non-exclusive license to use certain of its intellectual property to a technology company for an aggregate license fee of \$3,223,166. Payment was received for both contracted milestones in Q2 2016.

A portion of the net proceeds of the private placement and the non-exclusive license were used to repay the debentures that were due in June 2016 and to redeem the debentures that matured on December 23, 2016.

The Company funded 2016 operations primarily through the private placement, the receipt of the funds resulting from the sale of a non-exclusive license and cash received from sales. The Company will continue to strive to self-fund operations through 2017.

	2016 \$	2015 \$	Variance \$
Cash and cash equivalents	709,958	1,301,955	(591,997)
Restricted cash	250,000	250,000	-
Trade and other receivables	2,105,385	898,166	1,207,219
Deposits and prepaid expenses	216,819	137,861	78,958
Inventory	1,556,794	1,716,313	(159,519)
Trade payables and accrued liabilities	(2,163,307)	(2,757,707)	594,400
Unearned revenue	(827,235)	(1,087,197)	259,962
Loans and borrowings	(97,895)	(5,840,418)	5,742,523
Finance lease obligations	(15,553)	(27,922)	12,369
Current tax liabilities	(10,776)	(4,978)	(5,798)
<b>Working capital</b>	<b>1,724,190</b>	<b>(5,413,927)</b>	<b>7,138,117</b>
Unearned revenue	827,235	1,087,197	(259,962)
Customer deposits	317,899	1,020,675	(702,776)
<b>Modified working capital*</b>	<b>2,869,324</b>	<b>(3,306,055)</b>	<b>6,175,379</b>

\*See Non-GAAP Financial Measures

In 2016 option exercises resulted in the Company issuing a total of 54,050 shares for total proceeds of \$12,070 including:

- a) 24,050 options were exercised at \$0.19 per share for proceeds of \$4,570
- b) 30,000 options were exercised at \$0.25 per share for proceeds of \$7,500

As at April 4, 2017 FLYHT's issued and outstanding share capital was 208,629,439.

The consistent achievement of positive earnings is necessary before the Company can improve liquidity. The Company has continued to expand its cash flow potential through its continued marketing drive to clients around the world and signature of an increasing size and number of contracts for delivery of AFIRS units and related services. Management believes that the Company's installation momentum, conversion of installations to recurring revenue, new revenue streams, and ongoing sales will be sufficient to meet standard liquidity requirements going forward. 2016 revenue was a 37% increase over 2015 which contributed to an operating income of \$2,436,931; being \$5,650,234 more than 2015.

To continue as a going concern, the Company will need to maintain profitability and/or obtain additional financing to fund ongoing operations. If general economic conditions in the industry or the financial condition of a major customer deteriorates, or revenue streams and expanding markets adversely change, then the Company may have to scale back operations to create positive cash flow from existing revenue and/or raise the necessary financing in the capital markets. It is the Company's intention to continue to fund operations by adding to revenue as well as continue to manage outgoing cash flows. If the need arises due to market opportunities, the Company may meet those needs via the capital markets. These material uncertainties may cast significant doubt upon the Company's ability to continue as a going concern.

## Financial Instruments

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

The Company is exposed to changes in interest rates as a result of the operating loan bearing interest based on the Company's lenders' prime rate.

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

## Contractual Obligations

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

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

Under SADI, the Company has, at December 31, 2016, an outstanding repayable balance of \$1,730,582, compared to \$1,820,816 at December 31, 2015. The amount is repayable over 15 years on a stepped basis commencing April 30, 2014. The initial payment on April 30, 2014 was 3.5% of the total contribution received and the payment increases yearly by 15% until April 30, 2028 when the final payment will be 24.5% of the total contribution received. The repayment in 2016 was \$90,234 (2015: \$78,462).

A summary of the SADI loan carrying value as at December 31, 2016 and 2015 and changes during these years is presented below.

	2016 \$	2015 \$
Balance January 1	984,507	899,600
Interest accretion	178,368	163,369
Repayment	(90,234)	(78,462)
Balance December 31	1,072,641	984,507
Less current portion	103,768	90,234
Non-current portion	968,873	894,273

A summary of the SADI outstanding payable balance as at December 31, 2016 and 2015 and changes during these years is presented below.

	2016 \$	2015 \$
Balance January 1	1,820,816	1,899,278
Repayment	(90,234)	(78,462)
Balance December 31	1,730,582	1,820,816

The redeemable debenture issued in two tranches on April 18 and May 28, 2013, for an aggregate \$2,110,000, matured on June 30, 2016 and was redeemed for \$2,321,000.

The convertible debenture issued December 23, 2010 had an original face value of \$3,159,000 and was set to mature on December 23, 2014. On December 22, 2014 approval was received to extend the maturity date of the debentures then remaining outstanding from four to six years, to December 23, 2016. The debentures were redeemed on December 23, 2016 for \$3,039,000 plus accrued interest.

On November 9, 2016, the Company signed a contribution agreement with Western Economic Diversification Canada for a Western Innovation initiative (WINN) repayable contribution to support plans for technology development in the air and ground components of the products. Under the terms of the agreement, a repayable unsecured WINN contribution to the value of the lesser of 50% of the eligible project costs to March 31, 2019 or \$2,350,000 will be received. The amount is repayable over five years commencing January 1, 2020. At December 31, 2016, the Company had not yet received a contribution and no loan amount was outstanding.

Minimum lease payments are as follows.

Year	Total \$
2017	15,796

## Customer Deposits

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

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

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

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

The chart below outlines the movement in the Company's customer deposits throughout the periods ending December 31, 2016 and 2015. Payment was received for 14 installation kits in the fourth quarter of 2016 compared to 11 received in the fourth quarter of 2015, bringing 2016 year-to-date ("YTD") total payments for installation kits to 58, compared to a total of 36 in 2015.

	Q4 2016 \$	Q4 2015 \$	Variance \$	YTD 2016 \$	YTD 2015 \$	Variance \$
Opening balance	508,224	524,325	(16,101)	1,020,675	790,405	230,270
Payments received	512,257	1,229,085	(716,828)	2,681,987	2,828,055	(146,068)
Moved to unearned revenue	(702,582)	(732,735)	30,153	(3,384,763)	(2,597,785)	(786,978)
<b>Balance, December 31</b>	<b>317,899</b>	<b>1,020,675</b>	<b>(702,776)</b>	<b>317,899</b>	<b>1,020,675</b>	<b>(702,776)</b>

## Unearned Revenue

The chart below outlines the movement in the Company's unearned revenue throughout the periods ending December 31, 2016 and 2015. Revenue was recognized for 12 installation kits in 2016's fourth quarter compared to 28 in the fourth quarter of 2015. YTD, revenue has been recognized for 73 installation kits in 2016, as compared to 58 in 2015. In 2016, 100.0% of the unearned revenue balance at December 31, 2015 was recognized as earned revenue (2015: 65.9%).

	Q4 2016 \$	Q4 2015 \$	Variance \$	YTD 2016 \$	YTD 2015 \$	Variance \$
Opening balance	747,511	1,922,504	(1,174,993)	1,145,341	1,675,746	(530,405)
AFIRS sales shipped	702,582	732,735	(30,153)	3,384,763	2,597,785	786,978
Voice and data services prepaid	19,866	19,033	833	19,866	19,033	833
AFIRS sales recognized	(637,965)	(1,524,940)	886,975	(3,703,703)	(3,131,261)	(572,442)
Voice and data services recognized	(4,759)	(3,991)	(768)	(19,032)	(15,962)	(3,070)
<b>Balance, December 31</b>	<b>827,235</b>	<b>1,145,341</b>	<b>(318,106)</b>	<b>827,235</b>	<b>1,145,341</b>	<b>(318,106)</b>

## Comprehensive Income

### Revenue

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

### Revenue sources

	Q4 2016 \$	Q4 2015 \$	Variance \$	YTD 2016 \$	YTD 2015 \$	Variance \$
Voice and data services	1,169,741	1,067,894	101,847	4,375,138	3,986,813	388,325
AFIRS sales	854,406	1,574,559	(720,153)	3,931,607	3,372,421	559,186
Parts sales	2,091,720	1,123,803	967,917	5,808,491	2,932,100	2,876,391
Services	11,960	3,011	8,949	215,955	165,791	50,164
<b>Total</b>	<b>4,127,827</b>	<b>3,769,267</b>	<b>358,560</b>	<b>14,331,191</b>	<b>10,457,125</b>	<b>3,874,066</b>

Overall, total revenue increased 37.0% from \$10,457,125 in 2015 to \$14,331,191 in 2016. Voice and data services increased by 9.7%, Parts sales increased by 98.1%, AFIRS sales increased by 16.6%, while Services revenue increased by 30.3%.

**Voice and data services** increased compared to last year, due to a higher number of aircraft producing recurring revenue. Recurring revenue accounted for 28.3% of revenue in Q4 2016 (Q4 2015: 28.3%), and 30.5% YTD 2016 (YTD 2015: 38.1%). Recurring revenue from FLYHT's existing client base is expected to continue to expand throughout 2017 and future years.

**AFIRS sales** increased in 2016 as compared to 2015 due to an increased number of installation kits meeting the requirements for revenue recognition. YTD, revenue has been recognized for 73 installation kits, compared to 58 in 2015. Revenue was recognized for 12 installation kits in Q4 2016 compared to 28 in Q4 2015.

**Parts sales** increased both in the quarter and YTD in 2016 from 2015 due to differences in the number of modems with related license fees shipped in 2016.

**Services** revenue increased in the quarter and YTD in 2016 compared to 2015 due to a higher number of technical services provided to customers throughout 2016. This revenue category can be expected to vary significantly between periods and years.

Revenue sources for the last eight quarters were:

	Q4 2016	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015
Voice and data services	1,169,741	1,122,965	1,014,725	1,067,707	1,067,894	1,100,238	855,121	963,560
AFIRS sales	854,406	1,353,021	1,286,641	437,540	1,574,559	613,229	434,102	750,531
Parts sales	2,091,720	1,561,816	1,126,542	1,028,412	1,123,803	682,476	285,459	840,362
Services	11,960	16,566	109,757	77,672	3,011	123,404	23,921	15,455
<b>Total</b>	<b>4,127,827</b>	<b>4,054,368</b>	<b>3,537,665</b>	<b>2,611,331</b>	<b>3,769,267</b>	<b>2,519,347</b>	<b>1,598,603</b>	<b>2,569,908</b>

### Gross Profit and Cost of Sales

FLYHT's cost of sales includes the direct costs associated with specific revenue types, including the AFIRS unit, installation kits, training and installation support, as well as associated shipping expenses and travel expenses for the Company's engineering personnel while performing on-site installation support. Installations on aircraft are performed by third parties at the customer's expense. Cost of sales as a percentage of revenue in the fourth quarter of 2016 was 25.1% compared to 35.6% in 2015's fourth quarter. A review of the annual results shows the cost of sales as a percentage of revenue also increased from 30.7% in 2015 to 31.6% in 2016. The decrease in gross margin was due to differences in the mix of revenue sources in 2016 versus 2015 and a decrease in average AFIRS sales margin from 47.9% in 2015 to 44.5% in 2016. Gross margin will fluctuate quarter over quarter depending on customer needs and revenue mix.

Gross margin for the last eight quarters was:

	Q4 2016	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015
Gross Margin %	74.9	66.8	63.9	66.9	64.4	73.3	64.8	75.2
Cost of Sales %	25.1	33.2	36.1	33.1	35.6	26.7	35.2	24.8

### Distribution Expenses (Recovery)

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

Major Category	Q4 2016 \$	Q4 2015 \$	Variance \$	YTD 2016 \$	YTD 2015 \$	Variance \$
Salaries and benefits	978,347	598,925	379,422	3,255,326	1,983,579	1,271,747
Share based compensation	4,625	(1,392)	6,017	97,067	91,658	5,409
Contract labour	155,528	204,594	(49,066)	498,106	829,298	(331,192)
Office	95,901	112,159	(16,258)	416,733	328,855	87,878
Travel	139,930	144,210	(4,280)	562,645	472,078	90,567
Equipment and maintenance	12,614	(5,052)	17,666	25,006	40,216	(15,210)
Depreciation	10,064	9,385	679	41,580	29,840	11,740
Marketing	27,202	21,614	5,588	113,879	100,169	13,710
Other	-	-	-	(103,303)	101,940	(205,243)
<b>Total</b>	<b>1,424,211</b>	<b>1,084,443</b>	<b>339,768</b>	<b>4,907,039</b>	<b>3,977,633</b>	<b>929,406</b>



Distribution expenses increased compared to 2015 due mainly to higher people costs offset by a recovery of a bad debt that had been written off in 2014.

**Salaries and benefits** increased in 2016 as compared to 2015 due to an increase in sales and customer satisfaction staff.

**Contract labour** decreased both in the quarter and YTD as a contract resource engaged in early 2015 was converted to full time staff, together with non-recurrence of a recruitment fee paid in Q2 2015 to seek additional sales resources.

**Office** expenses increased in 2016 from 2015 mainly as the result of an increased rent allocation.

**Travel expenses** decreased in the quarter due to decreased travel associated with sales activities. Travel will vary significantly depending on the location of customer contracts and regions served.

**Equipment and maintenance** expenses decreased in 2016 versus 2015 largely due to a non-recurring 2015 purchase of equipment used to demonstrate FLYHT's services to prospective customers.

**Other expenses** decrease was the result of lower net bad debt reserves required; in Q2 and Q3 2016 a bad debt amount written off in 2014 was recovered.

## Administration Expenses

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

Major Category	Q4 2016 \$	Q4 2015 \$	Variance \$	YTD 2016 \$	YTD 2015 \$	Variance \$
Salaries and benefits	427,797	1,058,602	(630,805)	1,589,395	1,972,362	(382,967)
Share based compensation	-	37,099	(37,099)	228,058	276,008	(47,950)
Contract labour	48,096	52,024	(3,928)	172,014	153,594	18,420
Office	80,271	61,836	18,435	289,311	257,614	31,697
Legal fees	18,701	91,212	(72,511)	166,461	160,360	6,101
Audit and accounting	41,975	24,000	17,975	141,650	85,840	55,810
Investor relations	31,768	148,810	(117,042)	153,580	399,619	(246,039)
Brokerage, stock exchange, and transfer agent fees	6,154	3,601	2,553	61,665	59,544	2,121
Travel	29,584	60,823	(31,239)	119,143	211,307	(92,164)
Equipment and maintenance	16,062	11,953	4,109	79,187	64,138	15,049
Depreciation	3,268	2,304	964	9,704	10,098	(394)
Other	15,421	21,532	(6,111)	77,488	26,469	51,019
<b>Total</b>	<b>719,097</b>	<b>1,573,796</b>	<b>(854,699)</b>	<b>3,087,656</b>	<b>3,676,953</b>	<b>(589,297)</b>

Administration expenses were lower in 2016 due mainly to changes in people costs, a decrease in investor relations consultants and lower travel costs. These decreases were offset by increases in audit and accounting costs and other costs associated with employee relocation expenses.

**Salaries and benefits** were lower in 2016 compared with 2015, mainly due to decreased employee severance costs.

**Share based compensation** differences in the quarter and YTD were the result of timing and volume differences in share options awarded throughout the year.

**Contract Labour** increased for services related to the enterprise resource planning software.

**Office expenses** increased throughout 2016 mainly as a result of increased subscriptions, telephone and rent costs.

**Legal fees** decreased in the quarter mostly due to expenses associated with the private placement in 2015 not required in 2016. YTD fees remained consistent with prior year.

**Audit and accounting** increases YTD are mainly due to service adjustments in the prior year.

**Investor relations** expense decreased due to a reduction in the number of investor relations firms engaged with the Company.

**Travel** decreases are the result of a reduced requirement for travel in 2016 for administrative staff. Travel for this group will vary based on the activity level of industry groups and investor relations firms.

**Equipment and maintenance** expenses increased mainly due to upgrade of software products.

**Other** expense increased YTD as the result of non-recurring employee relocation expenses.

## Research, Development and Certification Engineering Expenses (Recovery)

Consist of expenses related to the improvement of existing and development of new technology and products.

Major Category	Q4 2016 \$	Q4 2015 \$	Variance \$	YTD 2016 \$	YTD 2015 \$	Variance \$
Salaries and benefits	467,494	474,014	(6,520)	1,562,383	1,964,388	(402,005)
Share based compensation	-	(1,635)	1,635	37,220	75,011	(37,791)
Contract labour	128,310	161,206	(32,896)	315,198	595,821	(280,623)
Office	40,566	30,212	10,354	119,530	197,618	(78,088)
Travel	12,520	6,902	5,618	54,595	52,143	2,452
Equipment and maintenance	35,335	20,364	14,971	111,077	65,038	46,039
Components	28,371	(9,541)	37,912	57,171	27,877	29,294
SRED credit	8,424	-	8,424	(211,790)	(216,708)	4,918
Depreciation	4,719	3,310	1,409	15,395	16,936	(1,541)
Other	-	4,363	(4,363)	-	24,428	(24,428)
Warranty Settlement	-	-	-	540,450	-	540,450
<b>Total</b>	<b>725,739</b>	<b>689,195</b>	<b>36,544</b>	<b>2,601,229</b>	<b>2,802,552</b>	<b>(201,323)</b>

Research and Development expense was lower than the prior year due to changes in people costs, and office expenditures, and other expenses partially offset by the settlement of a warranty claim. R&D costs will vary according to specific project requirements.

**Salaries and benefits** expended in this category decreased from 2015 to 2016, as the increased effort committed to enhancing revenue sources for ground based server applications, and enhancements made to FLYHTStream in early 2015 were not required in 2016. People costs will fluctuate with customer and industry demands for new products and enhancements of existing products, as well as differences in allocations from other cost centres to R&D.

**Share based compensation** decreased compared to the same period last year. A larger number of options were granted in 2016 under the share option plan, however the allocation to this group correlates with the decrease in salaries and benefits.

**Contract labour** has decreased in the current year. There were several contractors engaged throughout 2015 to assist in building the FLYHTASD program and certain non-recurring certification engineering on multiple time-sensitive STC's in early 2015 that was not repeated in 2016.

**Office** expenses were lower in 2016 compared to 2015 as a result of a decreased rent allocation.

**Equipment and maintenance** expenses increased both QTD and YTD in 2016 due to additional software and associated licensing fees required for research and development activities.

**Components** increases are the result of higher costs attributable to STCs in the year. Costs will vary depending on the number and location of STCs required.

**Other** expenses attributable to relocation costs in 2015 were not required in 2016.

**Settlement** amounts were due to the resolution of a partner's warranty claim in Q1 2016.

## Net Finance Costs

Major Category	Q4 2016 \$	Q4 2015 \$	Variance \$	YTD 2016 \$	YTD 2015 \$	Variance \$
Interest (income)	(2,801)	-	(2,801)	(30,368)	(2,128)	(28,240)
Net foreign exchange loss (gain)	2,814	25,721	(22,907)	11,023	(237,247)	248,270
Bank service charges	17,890	6,352	11,538	37,331	22,699	14,632
Interest expense	1,089	821	268	2,736	3,917	(1,181)
Government grant accretion	46,475	42,628	3,847	178,369	163,368	15,001
Debenture interest and accretion	75,234	204,272	(129,038)	509,113	711,993	(202,880)
Debenture cost amortization	-	2,691	(2,691)	5,295	10,677	(5,382)
<b>Net finance costs</b>	<b>140,701</b>	<b>282,485</b>	<b>(141,784)</b>	<b>713,499</b>	<b>673,279</b>	<b>40,220</b>

**Interest income** was earned on higher cash balances as a result of the cash received from the private placement and on the non-exclusive license revenue.

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

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

**Debenture interest and accretion** decreases were attributable to the debenture redemption in June 2016, requiring six months of interest and accretion in 2016 versus twelve months in 2015, which was partially offset by increased accretion on the convertible debenture that matured in December 2016.

## Net Loss

Major Category	Q4 2016 \$	Q4 2015 \$	Variance \$	YTD 2016 \$	YTD 2015 \$	Variance \$
Net income (loss)	79,709	(1,203,998)	1,283,707	1,712,718	(3,891,560)	5,604,278
Net income (loss) without R&D	805,448	(514,803)	1,320,251	4,313,947	(1,089,008)	5,402,955

## Foreign Exchange

All international and a majority of domestic sales of the Company's products and services are denominated in U.S. dollars. Accordingly, the Company is susceptible to foreign exchange fluctuations. In 2016, 99.0% of the Company's gross sales were made in U.S. dollars, compared to 98.4% in 2015. The Company expects this to continue as the aviation industry conducts the majority of its transactions in U.S. dollars, thus limiting the opportunity for sales in Canadian dollars or other major currencies. The Company also contracts in U.S. dollars for certain services and products related to cost of sales, which creates a natural hedge.

## Other

### Recent Accounting Pronouncements

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

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

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

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

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

## **Risks and Uncertainties**

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

### ***Installations at c-checks***

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

The Company takes steps to mitigate this risk by encouraging customers to install AFIRS at their aircraft's earliest availability and works with them to provide the box at the right time for installation, preferably while the aircraft is down for normal service. The goal is to reduce aircraft downtime and save the customer as much money as possible. Another risk mitigation tool used by the Company is to offer special discounts to airlines that pay for all units up front. This discount decreases FLYHT's gross margin slightly, but allows the Company to bring in cash immediately after signing an agreement. The terms of the Company's standard agreement states that payment is due a minimum of 45 days prior to the shipment of kits.

### ***Foreign currency fluctuations***

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

### ***General economic and financial market conditions***

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

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

### ***Dependence on key personnel and consultants***

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

### ***Dependence on new products***

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

### ***Availability of key supplies***

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

### ***Proprietary protection***

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

### **Transactions with Related Parties**

In the third and fourth quarters of 2015, the Company entered into an agreement with a company with ownership related to an officer of FLYHT. The company supplied consulting services in recruitment and supplied a contract resource to develop tools used to enhance the Company's ground based software. No amounts relating to this party were included in either contract labour nor accounts payable for the year ended December 31, 2016 (2015: contract labour: \$30,114; included in accounts payable and accrued liabilities: \$30,114).

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

### **Contractual Arrangement**

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

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