FLYHT AEROSPACE SOLUTIONS LTD.

Management Discussion and Analysis

2013

FLYHT
The Future of Connectivity

MANAGEMENT DISCUSSION & ANALYSIS

This management discussion and analysis ("MD&A") is as of April 14, 2014 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, 2013 and 2012 and the accompanying notes. Additional information with respect to FLYHT can be found on SEDAR at www.sedar.com. The Company has prepared its December 31, 2013 consolidated financial statements 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 IFRS or Generally Accepted Accounting Principles ("GAAP"). It also occasionally uses certain non-GAAP financial measures, such as working capital, modified working capital, and loss before research and development ("R&D"). FLYHT defines working capital as current assets less current liabilities. The Company defines modified working capital as current assets less current liabilities not including customer deposits or the current portion of unearned revenue. A clearer picture of short-term net cash requirements can be drawn by excluding these two items because those customer deposits and unearned revenue are nonrefundable. Loss before R&D is defined as the net loss before the direct costs associated with R&D. These non-GAAP financial measures are always clearly indicated. The Company believes that these non-GAAP financial measures provide investors and analysts with useful information so they can better understand the financial results and perform a better analysis of the Company's growth and profitability potential. Since non-GAAP financial measures do not have a standardized definition, they may differ from the non-GAAP financial measures used by other companies. The Company strongly encourages investors to review its financial statements and other publicly filed reports in their entirety and not rely on a single non-GAAP measure.

FORWARD-LOOKING STATEMENTS

This discussion includes certain statements that may be deemed "forward-looking statements" that are subject to risks and uncertainty. All statements, other than statements of historical facts included in this discussion, including, without limitation, those regarding the Company's financial position, business strategy, projected costs, future plans, projected revenues, objectives of management for future operations, the Company's ability to meet any repayment obligations, the use of non-GAAP financial measures, trends in the airline industry, the global financial outlook, expanding markets, R&D of next generation products and any government assistance in financing such developments, foreign exchange rate outlooks, new revenue streams and sales projections, cost increases as related to marketing, R&D (including AFIRS 228), administration expenses, and litigation matters, may be or include forward-looking statements. Although the Company believes the expectations expressed in such forward-looking statements are based on a number of reasonable assumptions regarding the Canadian, U.S., 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. military activity, market prices, foreign exchange rates, continued availability of capital and financing, and general economic, market, or business conditions in the aviation industry, worldwide political stability or any effect those may have on the Company's customer base. Investors are cautioned that any such statements are not guarantees of future performance, and that actual results or developments may differ materially from those projected in the forward-looking statements.

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

OVERVIEW

FLYHT is a designer, developer and service provider of innovative solutions to the global aerospace industry. The Company's solutions are designed to improve the productivity and profitability of its customers and enable communication between pilots and ground support. FLYHT's tools deliver data from the aircraft to operations groups on the ground, on demand. The Company's products are available for commercial, business and military aircraft. FLYHT's emergency data streaming program, FLYHTStream™, can stream position reports and data from an aircraft in flight to ground support in real time.

FLYHT's products and services, featured below, are marketed globally by a team of employees and agents based in Canada, the United States, China, the United Kingdom, Singapore, Ireland, Abu Dhabi, and Argentina.

AFIRS™ UPTIME™

FLYHT's Automated Flight Information Reporting System ("AFIRS") is a device installed on aircraft and monitors hundreds of essential functions from the plane and the black box. AFIRS sends the information to the UpTime server on the ground, which stores and relays the data to the airline in real time. Airlines use this information to increase passenger safety, improve productivity, maximize efficiency and enhance profitability. In addition to its data monitoring functions, AFIRS provides voice and text messaging capabilities that give pilots the ability to communicate with ground support. FLYHT also builds value added applications for operators such as FLYHTStream and the FLYHT Fuel Management System that run on the AFIRS hardware and its UpTime servers. FLYHT offers global satellite coverage, providing service to whoever needs it, when they need it, anywhere on the planet.

The AFIRS 220 has been FLYHT's signature product since 2004. The unit has received regulatory certification for installation in approximately 30 widely used commercial aircraft brands and models.

FLYHT's AFIRS 228 device continues to demonstrate its value in the marketplace. In 2013, it achieved new certification requirements for Supplemental Type Certificates ("STCs") and safety services messaging. FLYHT sold another 21 AFIRS 228 units during the year. The unit has received regulatory certification for installation on approximately eight widely used commercial aircraft brands and models.

The 228 incorporates improvements over the 220 in several important areas: processing capacity, data transmission characteristics and programmability. The 228's features cater to the evolving needs of airlines by providing a flexible product that is programmed for the information they need. AFIRS 228 is an addition to FLYHT's product line, not a replacement for the 220. The Company will continue to sell its AFIRS 220.

FLYHTSTREAM™

On July 12, 2012 the BEA - the French Civil Aviation Safety Investigation Authority - published their final report on the June 1st 2009 accident of Air France flight AF 447 from Rio de Janeiro to Paris. In the report the BEA recommends "…that EASA and ICAO make mandatory as quickly as possible, for airplanes making public transport flights with passengers over maritime or remote areas, triggering of data transmission to facilitate localisation as soon as an emergency situation is detected on board".

FLYHT is the only aerospace company that has demonstrated the ability to fulfill the BEA's recommendation.

FLYHT's patent-pending technology FLYHTStream is a revolutionary new technology that performs real-time triggered alerting and black-box data streaming in the event of an emergency on the aircraft. FLYHTStream uses AFIRS' onboard logic and processing capabilities on the aircraft in combination with UpTime's ground-based servers to interpret and route alerts and messages from the aircraft in trouble to parties on the ground that need to know such as the airline, operation centers and regulators.

FLYHT FUEL MANAGEMENT SYSTEM

The FLYHT Fuel Management System is a powerful way to focus attention on areas of greatest savings potential automatically, and to provide the information necessary to make decisions about the operation. Most airlines currently rely on a system of reports, manually generated and analyzed 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. The FLYHT Fuel Management System is not just a report-generation tool; it is a dynamic, interactive application that answers key questions by generating alerts and providing the user with the ability to quickly identify trends. FLYHT designed this unique application that highlights exceptions to best practices, provides quick drill downs to spot the root cause of issues, and identifies trends. It is an intuitive tool that enables fuel managers to act on information instead of compiling and analyzing data.

FIRST

The Fuel Initiative Reporting System Tracker ("FIRST") is a component of the FLYHT Fuel Management System (FIRST can also be purchased as a stand-alone module) that eliminates uncertainty about the effectiveness of an airline's fuel savings initiatives. The system allows operators to customize and choose settings that are important to their operation. It uses real-time flight data acquired from the aircraft's onboard systems, and presents the data to operations personnel in an easy to read dashboard. The dashboard compares how pilots are operating the aircraft to how they could be flying in order to maximize efficiency and fuel savings. 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.

THE DRAGON™

The Dragon is a revolutionary, lightweight, portable satellite communications device that blends existing FLYHT technology with that of the iPad. FLYHT developed the new product to meet a growing demand from small aircraft, business jet and helicopter operators for a satellite communications solution similar to AFIRS.

The device is portable, allowing operators the flexibility to use it where and when they need it. Because the Dragon is not installed on the aircraft, there is no need for STCs. The Dragon allows real-time voice and data communications enabled by the Iridium satellite network connected through the cockpit and the pilot's headset, though does not have data analysis or the safety services capabilities of other AFIRS products. An iPad application acts as an interface for the user in the cockpit to send and receive messages, such as weather updates, from the ground. Another key feature is flight following, so operators always know where their assets are in the sky.

UNDERFLOOR STOWAGE UNIT

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

SYSTEM APPROVALS

A Supplemental Type Certificate ("STC") is an airworthiness certification required to modify an aircraft from its original design and is issued by an aviation regulator. FLYHT's AFIRS equipment is an addition to an aircraft and therefore an STC is required prior to installation. FLYHT has received or applied for AFIRS product approvals from Transport Canada Civil Aviation ("TCCA"), the Federal Aviation Administration ("FAA") in the United States, the European Aviation Safety Agency ("EASA") in Europe, and the General Administration of Civil Aviation of China ("CAAC") for various aircraft models, depending on customer requirements.

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

In addition to its DAO status, the Company also has two engineers on staff with delegated authority, allowing them to approve electrical and structural design aspects of an airworthiness certification. If an issue is encountered during the STC process, the delegated staff member(s) have the authority to approve necessary changes and continue the process without the involvement of an external party.

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

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

FLYHT has received STC approvals for AFIRS 220 on the following aircraft:

- Airbus A319, A320, A321
- Airbus A330
- Boeing B737-200, 300, 400, 500
- Boeing B737-600, 700, 800
- Boeing B757-200
- Boeing B767-200, 300
- Bombardier DHC-8-100, 200, 300, 400
- Bombardier CRJ100, 200, 440
- DC-10
- Fokker F100
- Hawker Beech 750, 800XP, 850XP, 900XP
- Viking Air DHC-7 (LSTC)

FLYHT has received STC approvals for AFIRS 228 on the following aircraft:

- Airbus A319, 320, 321
- ATR 42, 72
- Boeing B737–700, 800
- Boeing 747-200
- Boeing B767-200, 300
- Boeing B777
- Bombardier CRJ-700, 900
- Hawker Beech 750, 800XP, 850XP, 900XP

FLYHT has received provisions-only STC approvals for AFIRS 228 on the following aircraft and expects full STCs in 2014:

- McDonnell Douglas MD-81, 82, 83, 87, 88

FLYHT has STC applications in process for AFIRS 220, expected to be submitted, depending on market requirements, for the following aircraft:

- Embraer Legacy 600

FLYHT has STC applications in process for AFIRS 228, expected to be submitted, depending on market requirements, for the following aircraft:

- Boeing B737-200, 300, 400, 500
- Boeing B747-400
- Boeing B757-200
- Bombardier DHC-8-400
- Dassault Falcon 2000

In addition, the Company will be filing the necessary documents to obtain approval for the AFIRS 228 for a majority of currently approved 220 STCs, depending on market requirements over the next several years. Portions of those costs, including salaries and salary burden, will be covered by funding committed by Industry Canada in February 2011 under the Strategic Aerospace and Defence Initiative ("SADI") program.

TRENDS AND ECONOMIC FACTORS

FLYHT examines the results of growth and measurements made by leading aviation groups in order to determine the health of the industry. AFIRS is a technology that can be installed on commercial, business or military aircraft while the Company's latest product, the Dragon, is available to the General Aviation market.

The airline industry saw a 5.2% increase in passenger demand in 2013 compared to the previous year. Load factors, meaning how close to capacity the flights were for the year, were near record levels at 79.5%, up 0.4 percentage points over 2012. Demand in international markets expanded at a faster rate (5.4%) than domestic travel (4.9%)[1]. Global freight traffic measured in Freight Tonne Kilometers ("FTK") was very slow at the beginning of 2013 and only grew by 1.4% over the whole year. 2014 is expected to be slow year for the cargo market.[2] RPK and FTK measure passenger and freight contributions to airline revenue. These are significant measures to determine the health of the industry because the larger the increase, the more people are flying, suggesting growth in the industry.

Large commercial aircraft manufacturers recorded solid numbers for deliveries and new orders in 2013. Airbus delivered 626 commercial aircraft, including 1619 gross orders beating the previous record set in 2011 by 11 aircraft[3]. Boeing delivered 648 aircraft in 2013, an 8% increase from the previous year. The OEM also had record revenue for the year, a 6% increase from 2012[4]. Embraer delivered 90 commercial jets in 2013, a decrease from the previous year though they made up for it with an increase of the difference in deliveries of business jets[5]. Bombardier delivered 238 aircraft, compared to 233 for the previous year. During this same period, Bombardier received 81 firm orders for commercial aircraft[6].

The General Aviation Manufacturers Association ("GAMA") reported that numbers in worldwide general aviation airplane shipments rose 4.3% to 2,256 shipments in 2013 from 2,164 in 2012. Total shipments of helicopters also increased 7% in the year.[7]

FLYHT continues to meet the needs of the aviation industry through the introduction of value-added information products and specialty services that build customer value and FLYHT revenues from existing and new installations. Key achievements in 2013 were the certification of the AFIRS 228S in order to send Aircraft Communications Addressing and Reporting System ("ACARS") messages over Iridium; as well, as the Iridium Compatible Environment ("ICE") certification to send voice and data safety services messaging on the Iridium satellite network. The Company will continue to participate in industry working groups in 2014 to advance engineering and technical requirements and prepare for future development of the AFIRS product line to meet industry needs.

On the economic side of industry trends, the weakening of the Canadian dollar relative to the U.S. dollar during the fourth quarter of 2013 versus the same quarter of 2012 had a positive impact on the Company's revenue and income compared to the same quarter of 2012. As a result of these movements, the Company's revenues, which are substantially all denominated in U.S. dollars, were higher than they would have been had the foreign exchange rates not changed. It is the standard of the aviation industry to conduct business in U.S. dollars. While the majority of the Company's costs are denominated in Canadian dollars, a significant portion of the cost of sales, marketing and component costs are U.S. dollar denominated, and therefore create a natural hedge against fluctuations of the Canadian dollar.

1. http://www.iata.org/pressroom/pr/Pages/2014-02-06-01.aspx

2. http://www.iata.org/pressroom/pr/Pages/2014-02-05-01.aspx

3. http://www.airbus.com/newsevents/news-events-single/detail/airbus-sets-new-records-in-orders-deliveries-and-backlog/

4. http://boeing.mediaroom.com/2014-01-29-Boeing-Reports-Record-2013-Revenue-EPS-and-Backlog-and-Provides-2014-Guidance

5. http://www.embraer.com.br/Documents/noticias/008-Results%204Q13-Ins-VPF-I-14.pdf

6. http://www.bombardier.com/en/media-centre/newsList/details.bombardier-inc-q4c2013financialresults20140213.html?

7. http://www.gama.aero/media-center/press-releases/content/gama-releases-2013-year-end-aircraft-shipment-and-billing-number

CONTRACTS AND ACHIEVEMENTS OF FISCAL 2013

Contracts

FLYHT Aerospace Solutions Ltd. signed a total of a total of seven contracts on 52 aircraft with customers worldwide. 26 were for the AFIRS 220, 21 for the AFIRS 228 and five were for the Dragon.

In January, FLYHT signed a contract with a domestic Nigerian airline for the AFIRS 220 on five Airbus A319 and A320 Aircraft.

In May, FLYHT received a purchase order from a major avionics integrator for AFIRS 228 equipment for seven Lockheed C-130 Hercules aircraft owned and operated by a Middle Eastern country's air force.

Also in May, FLYHT signed a contract with a schedule Maldivian airline to install AFIRS 220 on one Boeing 757 and the AFIRS 228B on two Boeing 767 aircraft.

In September, FLYHT signed a contract with a Nigerian airline for AFIRS 220 on four Boeing 737 aircraft.

In November, FLYHT signed a contract with an eastern European airline for AFIRS on four Boeing 757.

Also in November, FLYHT signed a contract with a South American cargo airline for AFIRS on 12 Boeing 737-400 and 12 ATR-200 aircraft. The airline is a cargo carrier with plans to be the dominant cargo carrier in the region with an integrated ground and air cargo operation.

In December, FLYHT announced the sale and shipment of five of its recently released Dragon products to DAC Aviation International Ltee./DAC Aviation (EA) Ltd. ("DAC") for five Cessna Caravan Aircraft to provide voice and data services in support of their humanitarian missions in Africa.

Achievements

- AFIRS 228 was approved on the SITA and ARINC networks to provide ACARS over Iridium messages.
- AFIRS 228 received the ICE certification for the commercial use of the AFIRS 228S on the Iridium satellite network.
- FLYHT introduced the Dragon as an exciting new member of the FLYHT family of products. The Dragon is a revolutionary, lightweight, portable satellite communications device that blends existing FLYHT technology with that of the iPad. FLYHT developed the new product to meet a growing demand from small aircraft, business jet and helicopter operators for a satellite communications solution similar to AFIRS.
- FLYHT added another commercial OEM to its customer list with the agreement with Datang Mobile Aviation division in China for the AFIRS 228 to be standard fit on production ARJ21 aircraft.
- Shareholders exercised warrants and stock options for an aggregate of $6,144,886.
- FLYHT received an activation STC in June for the AFIRS 228 on the Boeing 777 aircraft from the FAA.
- FLYHT received an activation STC in August for its AFIRS 228 on the Boeing 767-200/300 series aircraft from TCCA.
- In September, FLYHT received an activation STC for the AFIRS 228 on the Boeing 737- 700/800 series aircraft from TCCA.

RESULTS OF OPERATIONS
YEAR ENDED DECEMBER 31, 2013 AND 2012

Quarterly Results

	Q4 2013 $	Q3 2013 $	Q2 2013 $	Q1 2013 $
AFIRS UpTime sales	592,483	583,742	1,009,837	521,777
AFIRS UpTime usage	1,080,503	881,903	846,438	815,874
Parts	79,716	307,588	61,586	206,672
Services	184,055	409,804	245,573	172,813
Revenue	**1,936,757**	**2,183,037**	**2,163,434**	**1,717,136**
Loss	1,438,795	615,950	1,038,283	970,136
Loss before R&D	745,444	174,987	680,936	281,570
Loss per share (basic & fully diluted)	0.01	0.00	0.01	0.01

	Q4 2012 $	Q3 2012 $	Q2 2012 $	Q1 2012 $
AFIRS UpTime sales	1,063,933	555,413	581,290	264,148
AFIRS UpTime usage	774,657	799,872	756,705	760,392
Parts	85,138	48,591	19,168	49,523
Services	296,673	145,885	227,312	41,106
Revenue	**2,220,401**	**1,549,761**	**1,584,475**	**1,115,169**
Loss	621,446	133,102	1,954,303	2,174,901
Loss before R&D	40,436	290,563	1,183,274	961,742
Loss per share (basic & fully diluted)	0.00	0.00	0.02	0.02

Selected Annual Information

	2013 $	2012 $	2011 $
Assets	8,435,962	4,968,972	5,509,709
Non-current financial liabilities	1,992,028	3,118,142	2,519,337
Revenue	8,000,364	6,469,806	5,467,199
Comprehensive loss	4,063,164	4,883,752	6,543,049
Comprehensive loss per share – basic & fully diluted	0.03	0.04	0.06

Liquidity and Capital Resource

The Company's cash at December 31, 2013 increased to $5,184,803 from $676,246 at December 31, 2012. The Company has an available operating line of $250,000 that was undrawn as at December 31, 2013. The operating line bears an interest rate of Canadian chartered bank prime plus 1.5%, and is secured by assignment of cash collateral and a general security agreement.

At December 31, 2013, the Company had negative working capital of $894,887 compared to negative $2,772,247 as of December 31, 2012, an improvement of $1,877,360. Neither customer deposits, nor the current portion of unearned revenue are refundable, and if those two items are not included in the working capital calculation, the resulting modified working capital at December 31, 2013 would be positive $760,174 compared to positive $742,068 at December 31, 2012.

The Company funded 2013 operations primarily through cash received from sales, the proceeds of private placements, and funding received through the SADI grant program. If the costs associated with R&D were factored out, there would have been an increase in cash of $6,703,863. It is expected that R&D expenses will continue to decrease as the AFIRS 228 project moves into the next phase of enhancements and the finished product continues to generate revenues. The resulting increase in cash inflows from sales will reduce the requirement for further funding. The Company believes that if funding is required to meet cash flow requirements in 2014, it will be able to do so either through debt or equity instruments.

	December 31, 2013 $	December 31, 2012 $	Variance $
Cash and cash equivalents	5,184,803	676,246	4,508,557
Restricted cash	250,000	250,000	-
Trade and other receivables	784,426	1,209,497	(425,071)
Deposits and prepaid expenses	145,554	99,464	46,090
Inventory	1,308,243	1,663,918	(355,675)
Trade payables and accrued liabilities	(3,704,496)	(3,658,254)	(46,242)
Unearned revenue	(1,103,834)	(2,717,245)	1,613,411
Loans and borrowings	(3,745,513)	(271,832)	(3,473,681)
Finance lease obligations	(13,175)	(19,963)	6,788
Current tax liabilities	(895)	(4,078)	3,183
Working capital	**(894,887)**	**(2,772,247)**	**1,877,360**
Unearned revenue	1,103,834	2,717,245	(1,613,411)
Customer deposits	551,227	797,070	(245,843)
Modified working capital	**760,174**	**742,068**	**18,106**

As of December 31, 2013, the Canadian equivalent of the Company's outstanding accounts payable to Sierra Nevada Corporation ("SNC") was $1,921,384 (December 31, 2012: $1,790,571) relating to their involvement with the development of the AFIRS 228. The outstanding amount in USD remained unchanged from 2012 to 2013. If this amount was removed from the working capital it would be positive $1,026,497 at December 31, 2013 and negative $981,676 at December 31, 2012. As well, the modified working capital would be a positive $2,681,558 at December 31, 2013 and positive $2,532,639 at December 31, 2012. As reported in the 2010 Annual Report the development effort for the AFIRS 228 program was split into four general modules: (1) hardware, (2) board support software (both developed by a Calgary contractor), (3) Embedded Logic Applications ("ELA") (developed by FLYHT staff in Calgary), and (4) core software (the responsibility of SNC). Late in 2010, it was recognized by management that progress on the AFIRS 228 program was on track for year end delivery for the hardware, board support software and ELA. However, time estimates to complete the core software continued to slip and costs had escalated. In the third quarter of 2011, management of FLYHT reviewed the state of the core software development with SNC in order to develop a plan and prepare for the transition from a SNC deliverable to FLYHT maintained software. It was determined by management that the best course of action to successfully complete the 228 in a timely fashion was to repatriate the core software development to Calgary and build a team around the existing resources of FLYHT's Calgary based contractors and staff. The transition occurred in February 2011, and as anticipated, the first customer test flight was completed before the end of 2011. Full certification has begun to meet the timelines required by our current customers and prospects. The current accounts payable amount outstanding of $1,921,384 is presently under dispute in the courts. See the Contingency section on page 39 for further clarification.

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

In 2013 a total of 16,007,102 warrants were exercised, each exercisable into one common share for total proceeds of $6,051,986:

(a) 1,071,522 warrants were exercised with an exercise price of $0.20 per share for proceeds of $214,304

(b) 1,365,500 warrants were exercised with an exercise price of $0.30 per share for proceeds of $409,650, and

(c) 13,570,080 warrants were exercised with an exercise price of $0.40 per share for proceeds of $5,428,032

Also in 2013, a total of 314,000 stock options were exercised for total proceeds of $92,900, with each stock option exercised into one common share:

(a) 224,000 stock options were exercised with an exercise price of $0.25 for proceeds of $56,000, and

(b) 90,000 stock options were exercised with an exercise price of $0.41 per share for proceeds of $36,900

As at April 14, 2014, FLYHT's issued and outstanding share capital was 163,045,548.

The achievement of positive earnings before interest and amortization is necessary before the Company can improve liquidity. The Company has continued to expand its cash flow potential through its continued marketing drive to clients around the world. Management believes that the Company's installation momentum, conversion of installations to recurring revenue, new revenue streams, and ongoing sales will be sufficient to meet standard liquidity requirements going forward. To continue as a going concern, the Company will need to attain profitability and/or obtain additional financing to fund ongoing operations. If general economic conditions or the financial condition of a major customer deteriorates, then the Company may have to scale back operations to create positive cash flow from existing revenue and/or raise the necessary financing in the capital markets. It is the Company's intention to continue to fund operations by adding revenue and its resulting cash flow as well as continue to manage outgoing cash flows. If the need arises due to market opportunities, the Company may meet those needs via the capital markets. These material uncertainties may cast significant doubt upon the Company's ability to continue as a going concern.

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 product, AFIRS 220, can take approximately 200 person-hours or more to install on an aircraft, depending on the aircraft type and crew. Since 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, though it can take as long as two or three years before an aircraft is out of service for an extended period. Waiting for a c-check for AFIRS installation is a risk to the Company because it results in a delay in initial revenue from the sale of the box and the Company does not receive recurring revenue connected with the monthly service offerings until the device is installed and running.

The Company takes steps to mitigate this risk by encouraging customers to install AFIRS at their aircraft's earliest availability and works with them to provide the box at the right time for installation, preferably while the aircraft is down for normal service. The goal is to reduce aircraft downtime and save the customer as much money as possible. Another risk mitigation tool used by the Company is to offer special discounts to airlines that pay for all units up front. This discount decreases FLYHT's gross margin slightly, but allows the Company to bring in cash immediately after signing an agreement. As well, the terms of the Company's standard agreement states that payment is due a minimum of 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 majority of the Company's costs are denominated in Canadian dollars, though a significant portion of costs of goods sold 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. Since the economic recession in 2008, all sectors including the commercial sector have slowed down. 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 strategy the Company has achieved is a global sales presence. FLYHT has established sales agents on every continent. While some economies of the world may be in a bit of a slump or downturn, there is a place for FLYHT in growing markets. FLYHT also demonstrates to potential customers its impressive return on investment model, how quickly potential customers can improve operational efficiency, and ultimately how much money AFIRS will save them.

Dependence on key personnel and consultants

FLYHT's ability to maintain its competency in the industry is dependent on maintaining a specially skilled workforce. The Company's Design Approval Organization status, delegated by TCCA, enables a smooth implementation of STCs, required to install AFIRS on aircraft. Key staff, with TCCA delegation status, enables the Company to complete STCs in a timely and cost efficient manner. The Company has worked hard 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 does fill a gap in the industry, as evidenced by sales of the AFIRS 228 throughout 2013. The Company expanded its reach to meet the needs of another sector of the industry, general aviation operators. FLYHT released the Dragon in the fall of 2013, to fill the demand for a portable satellite communications device. The product was invented after industry research was conducted, as well of the Company's awareness of general aviation operators' demand for increased connectivity. The Company's success will ultimately depend on the success of both products, and future enhancements made to both.

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, China, 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 claiming patent infringement, 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.

Revenue recognition cycle

FLYHT's revenue recognition for AFIRS Uptime sales and parts revenue 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 product.

Customers are required to pay for 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. Upon shipment of an installation kit, the customer deposit is reclassified to unearned revenue, where it will remain until the AFIRS UpTime solution has been installed and is fully functional, at which point the installation kit is recognized as AFIRS UpTime sales revenue.

When customers order spare parts or Underfloor Stowage Units a prepayment is required, which is recorded as a customer deposit. When the shipment of the ordered part or unit occurs, the customer deposits are recognized as Parts revenue.

Customer deposits

Customer deposits are amounts received for AFIRS UpTime 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, 2013 and 2012. Payment was received for 10 installation kits in the fourth quarter of 2013, compared to 17 received in the fourth quarter of 2012, bringing 2013 year-to-date ("YTD") total payments for installation kits to 42, compared to a total of 78 in 2012.

	Q4 2013 $	Q4 2012 $	Variance $	YTD 2013 $	YTD 2012 $	Variance $
Opening balance	622,082	1,033,613	(411,531)	797,070	980,955	(183,885)
Payments received from customers	188,809	763,366	(574,557)	1,204,677	3,262,045	(2,057,368)
Moved to unearned revenue	(259,664)	(999,909)	740,245	(1,450,520)	(3,445,930)	1,995,410
Balance, December 31	**551,227**	**797,070**	**(245,843)**	**551,227**	**797,070**	**(245,843)**

Unearned revenue

The chart below outlines the movement in the Company's unearned revenue throughout the periods ending December 31, 2013 and 2012. Revenue was recognized for 15 installation kits in 2013's fourth quarter compared to 26 in the fourth quarter of 2012. Revenue was recognized for 62 installation kits in 2013, as compared to 59 in 2012. In 2013, 77.7% of the unearned revenue balance at December 31, 2012 was recognized as earned revenue (2012: 71.1%).

	Q4 2013 $	Q4 2012 $	Variance $	YTD 2013 $	YTD 2012 $	Variance $
Opening balance	1,494,153	2,741,596	(1,247,443)	2,717,245	1,897,204	820,041
AFIRS UpTime sales: shipped, not accepted	259,664	999,909	(740,245)	1,450,520	3,445,930	(1,995,410)
AFIRS UpTime usage: prepaid	25,090	116,694	(91,604)	414,228	376,981	37,247
AFIRS UpTime sales: revenue recognized	(578,936)	(1,063,933)	484,997	(2,694,292)	(2,464,784)	(229,508)
AFIRS UpTime usage: revenue recognized	(31,757)	(12,641)	(19,116)	(526,347)	(280,566)	(245,781)
License fees: revenue recognized	(64,380)	(64,380)	-	(257,520)	(257,520)	-
Balance, December 31	**1,103,834**	**2,717,245**	**(1,613,411)**	**1,103,834**	**2,717,245**	**(1,613,411)**

Revenue

For the revenue categories listed in the Revenue sources chart, AFIRS Uptime sales includes the income from an AFIRS hardware sale as well as the parts required to install the unit. AFIRS Uptime usage is the recurring revenue from customers' usage of data they receive from AFIRS and use of functions such as the satellite phone. Parts revenue includes the sale of spare AFIRS units, spare installation parts, and Underfloor Stowage Units. Services revenue includes technical services, repairs and expertise the Company offers such as the installation of operations control centres, including two FLYHT set up in Nigeria.

Overall, total revenue increased 23.7% from $6,469,806 in 2012 to $8,000,364 in 2013. AFIRS Uptime sales increased by 9.9%, AFIRS Uptime usage increased by 17.2%, Parts sales increased by 223.9%, and Services revenue increased by 42.4%. Fourth quarter revenue decreased 12.8% from $2,220,401 in Q4 2012 to $1,936,757 in Q4 2013, due to decreases in AFIRS Uptime sales of 44.3%, Parts sales of 6.4% and Services revenue of 38.0%. These decreases were partially offset by a 39.5% increase in AFIRS Uptime usage.

The Company has two types of revenue streams relating to AFIRS equipment, depending on the type of service agreement: rental and sales. In accordance with the Company's revenue recognition policy for rental type agreements, the arrangement consideration is deferred as unearned revenue and revenue is recognized over the initial term of the contracts. At December 31, 2013, there were no customers with a rental type contract (2012: one customer). For sales type agreements, AFIRS fees 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 fully recognized in revenue along with the work in progress as cost of sales. Under both forms of agreement, UpTime usage fees are recognized as the service is provided based on actual customer usage each month. The amounts recorded in unearned revenue are nonrefundable.

Revenue sources

	Q4 2013 $	Q4 2012 $	Variance $	YTD 2013 $	YTD 2012 $	Variance $
AFIRS UpTime sales	592,483	1,063,933	(471,450)	2,707,839	2,464,784	243,055
AFIRS UpTime usage	1,080,503	774,657	305,846	3,624,718	3,091,626	533,092
Parts	79,716	85,138	(5,422)	655,562	202,420	453,142
Services	184,055	296,673	(112,618)	1,012,245	710,976	301,269
Total	**1,936,757**	**2,220,401**	**(283,644)**	**8,000,364**	**6,469,806**	**1,530,558**

The Company's long-term investment in marketing and relationship building has created a strong pipeline of prospective clients around the world. The revenue breakdown based on geographical location is displayed in the next table. Recurring revenue accounted for 45.3% of revenue in 2013, compared to 47.8% in 2012. Approximately 55.8% of the Company's revenue in the fourth quarter of 2013 was recurring, compared to 34.9% in the fourth quarter of 2012. Recurring revenue as a percentage of overall revenue will fluctuate from period to period depending on the mix of revenue during each period. Recurring revenue from FLYHT's existing client base is expected to continue to expand throughout 2013 and future years.

Geographical sources of revenue

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

	Q4 2013 $	Q4 2012 $	YTD 2013 $	YTD 2012 $
North America	731,995	1,162,883	3,853,788	3,522,317
South/Central America	167,765	87,861	460,184	472,850
Africa/Middle East	590,523	817,314	1,391,446	1,729,862
Europe	41,488	13,036	549,718	150,247
Australasia	187,923	135,363	697,249	520,843
Asia	217,063	3,944	1,047,979	73,687
Total	**1,936,757**	**2,220,401**	**8,000,364**	**6,469,806**

	Q4 2013 %	Q4 2012 %	YTD 2013 %	YTD 2012 %
North America	37.8	52.3	48.1	54.5
South/Central America	8.7	4.0	5.8	7.3
Africa/Middle East	30.5	36.8	17.4	26.7
Europe	2.1	0.6	6.9	2.3
Australasia	9.7	6.1	8.7	8.1
Asia	11.2	0.2	13.1	1.1
Total	**100.0**	**100.0**	**100.0**	**100.0**

Gross Profit and Cost of Sales

FLYHT's cost of sales include 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's 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 2013 was 39.6% compared to 34.1% in 2012's fourth quarter. A review of the annual results shows the cost of sales as a percentage of revenue also decreased from 42.8% in 2012 to 40.8% in 2013. The decrease was due to a difference in the mix of revenue sources, as AFIRS Uptime usage, Parts sales, and Services have higher margins than AFIRS Uptime sales. Gross margin will fluctuate quarter over quarter depending on customer needs and corresponding with the revenue type.

Gross margin for the last eight quarters was:

				2013				2012
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Gross Margin %	60.4	56.9	54.5	66.6	65.9	60.1	43.7	54.8
Cost of Sales %	39.6	43.1	45.5	33.4	34.1	39.9	56.3	45.2

Operating Activities

Other income

Other income consists of the recognition of the SNC license fee that was deferred as unearned revenue when received, and is being recognized over the initial five-year term of the agreement.

Distribution expenses (recovery)

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

Major Category	Q4 2013 $	Q4 2012 $	Variance $	YTD 2013 $	YTD 2012 $	Variance $
Salaries and benefits	388,747	463,650	(74,903)	1,506,626	1,829,053	(322,427)
Share based compensation	-	(40,645)	40,645	85,071	95,458	(10,387)
Contract labour	79,900	120,945	(41,045)	275,059	559,096	(284,037)
Office	87,594	81,078	6,516	366,439	345,648	20,791
Travel	106,426	65,429	40,997	403,319	315,797	87,522
Equipment & maintenance	9,157	5,369	3,788	25,413	31,820	(6,407)
Depreciation	11,817	13,281	(1,464)	46,129	52,956	(6,827)
Marketing	15,797	12,550	3,247	41,441	61,773	(20,332)
Other	134,890	12,987	121,903	206,949	69,604	137,345
Total	**834,328**	**734,644**	**99,684**	**2,956,446**	**3,361,205**	**(404,759)**

Salaries and benefits decreased in 2013 as compared to 2012 both in the quarter and YTD mainly due to decreased staffing requirements to meet AFIRS 228 development needs. The decreased costs were allocated between distribution and research and development expenses as the decreased staff's efforts had been split between meeting the needs of existing and future customers, and AFIRS 228 development. A portion of the decrease was the result of non-renewal of a sales director's employment agreement.

Share based compensation decreased YTD due to a higher option grant in 2012 than in 2013, partially offset by the vesting in the first three quarters of 2013 of options granted in 2012. The recovery in Q4 2012 was due to a decrease in the calculated fair value per share of unvested options.

Contract labour decreased compared with the same periods last year. There has been a reduction in contractors supplying distribution related services.

Office expenses increased in the quarter and YTD 2013 from 2012 mainly as the result of additional membership fees for industry groups FLYHT has become involved with in 2013, together with an increased YTD rent allocation, offset partially by decreased communication and other costs in 2013 YTD due to cost containment measures.

Travel expenses increased in 2013 versus 2012 largely as the result of increased travel and meals associated with sales activities. It is anticipated that as the AFIRS 228 rollout continues, travel expenses will continue to increase on an annual basis and quarterly fluctuations will continue to occur.

Equipment and maintenance decreases throughout 2013 were due to costs associated with the movement of the UpTime hosting centre in 2012 to accommodate growth in the installation base that was not repeated in 2013. This decrease is partially offset in the fourth quarter by increased maintenance and costs associated with supporting the growth that prompted the move and with additional steps taken to ensure maximum reliability of UpTime data.

Depreciation expense decreased in the quarter and throughout 2013 due to a decrease in the need to acquire capital equipment.

Marketing expenses decreased throughout 2013 partially offset by an increase in Q4, due to the reduced requirement for marketing collateral throughout 2013 as well as a reduction in the number of tradeshows attended. The Company has analyzed the effectiveness of tradeshows and has targeted the most beneficial to the business objectives of the Company.

Other expenses expenses decreased from 2012 to 2013 due to differences in bad debt adjustments. An increase in reserve of $12,897 was recorded in Q4 2012, whereas the adjustment made in Q4 2013 for potential bad debt amounted to $134,890.

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 2013 $	Q4 2012 $	Variance $	YTD 2013 $	YTD 2012 $	Variance $
Salaries and benefits	520,345	359,289	161,056	1,498,854	1,253,401	245,453
Share based compensation	8,558	13,075	(4,517)	260,091	227,808	32,283
Contract labour	25,250	48,608	(23,358)	141,271	112,366	28,905
Office	76,660	78,561	(1,901)	305,104	324,465	(19,361)
Legal fees	12,636	15,169	(2,533)	36,405	142,378	(105,973)
Audit and accounting	27,000	21,550	5,450	122,625	104,855	17,770
Investor relations	67,432	33,250	34,182	243,975	93,709	150,266
Brokerage, stock exchange, and transfer agent fees	2,865	1,941	924	27,377	26,961	416
Travel	24,368	38,319	(13,951)	96,585	106,586	(10,001)
Equipment and maintenance	16,025	15,419	606	55,462	57,844	(2,382)
Depreciation	5,980	7,240	(1,260)	23,920	28,874	(4,954)
Other	18,396	7,608	10,788	47,453	17,522	29,931
Total	**805,515**	**640,029**	**165,486**	**2,859,122**	**2,496,769**	**362,353**

Salaries and benefits increased throughout 2013 compared with 2012, mainly due to an increase in project management staff to effect greater efficiency, partially offset by the reduction of a full time investor relations staff member, replaced by the reengagement of an Investor Relations ("IR") consultant in Q3 2012.

Share based compensation increased YTD due to the vesting throughout 2013 of options granted to IR consultants in the third quarter of 2012 and the first and fourth quarters of 2013, in addition to employee options issued in the second quarter of 2013. The variance in Q4 is due to a decrease in the calculated fair value per share of unvested options.

Contract labour increased YTD due to the engagement in mid-2012 of a consultant working to identify new corporate opportunities. The QTD decrease was due to a non-recurring consulting fee in late 2012.

Office expenses decreased in both the fourth quarter and year over year from 2012 to 2013 mainly as the result of a decreased YTD rent allocation.

Legal fees decreased in both the quarter and YTD, due to reduced requirements for legal services with regards to research on international business processes and the implementation of the appropriate policies and documentation, the Q2 2012 closure of legal proceedings with the Toronto-based company, and the reduced legal services requirements in the action against SNC throughout 2013 (Contingencies, page 39). Non-recurring legal fees associated with FLYHT's name change in Q2 2012 also contributed to the quarter and YTD decreases.

Audit and accounting increases in the quarter and YTD are mainly due to an increased requirement for international tax consulting.

Investor relations expenses increased in the third quarter of 2013 and YTD, due to the reengagement of an IR consultant near the end of 2012 and the addition of a second IR consultant in the first quarter of 2013.

Travel expenses decreased in the quarter and throughout 2013 compared to 2012 as a result of decreased operations staff attendance at industry meetings. It is anticipated that with the roll out of an investor outreach program in conjunction with the engagement of an investor relation advisor, travel expenses will increase over future quarters.

Equipment and maintenance decreases are due to the decreased requirement for maintenance on administrative-related equipment in 2013, partially offset in the fourth quarter.

Depreciation expense decreased in the quarter and throughout 2013 due to a decrease in the need to acquire capital equipment.

Other expense increased in the quarter and year to date due to an employee relocation expense in 2013.

Research and development expenses (recovery)

Major Category	Q4 2013 $	Q4 2012 $	Variance $	YTD 2013 $	YTD 2012 $	Variance $
Salaries and benefits	412,139	302,017	110,122	1,536,904	1,544,718	(7,814)
Share based compensation	-	-	-	13,542	12,615	927
Contract labour	145,480	68,135	77,345	533,107	1,265,032	(731,925)
Office	94,731	35,261	59,470	188,579	303,740	(115,161)
Travel	8,210	14,278	(6,068)	48,734	60,419	(11,685)
Equipment & maintenance	1,799	13,423	(11,624)	33,154	48,704	(15,550)
Components	25,622	65,908	(40,286)	264,587	63,267	201,320
Government grants	-	44,870	(44,870)	(130,801)	(585,705)	454,904
SRED credit	-	31,512	(31,512)	(326,195)	(327,438)	1,243
Depreciation	4,415	5,607	(1,192)	17,661	22,385	(4,724)
Other	955	-	955	955	-	955
Total	**693,351**	**581,011**	**112,340**	**2,180,227**	**2,407,737**	**(227,510)**

Salaries and benefits expended on research and development decreased throughout 2013, as the 228B moved toward full production. This was partially offset by increases in Q4 as R&D needs increased due to the requirements for launching the Dragon in late 2013, together with a short-term increase required to complete Chinese installation documentation.

Contract labour decreased from 2012 YTD, mainly as the result of reduced utilization of consultants for hardware development. The YTD decrease was partially offset due to the increased activity required for launching the Dragon in late 2013.

Office expenses decreased YTD as the result of decreased costs associated with patent applications. Legal requirements associated with the SNC legal action were lower in 2013 than 2012 overall, with an increase in Q4 2013 as compared to Q4 2012.

Components requirements decreased in the quarter while increasing YTD, due to a requirement in earlier 2013 for a number of test parts used in developing enhanced functionality of recently developed products.

Government grants variance YTD is due to a larger portion of SADI grant funds received in 2012 than 2013. The expense in Q4 2012 was the result of an adjustment to the effective interest rate of the repayment portion of SADI grant funds received.

SRED credit expense in Q4 2012 was the result of the Canada Revenue Agency Scientific Research and Experimental Development ("SRED") program's final review of the Company's 2010 SRED claim.

Net finance costs

Major Category	Q4 2013 $	Q4 2012 $	Variance $	YTD 2013 $	YTD 2012 $	Variance $
Interest income	-	11	(11)	2,221	1,958	263
Net foreign exchange gain	-	-	-	-	10,830	(10,830)
Bank service charges	4,772	5,291	(519)	21,388	20,721	667
Interest expense	1,315	1,641	(326)	10,187	12,300	(2,113)
Government grant accretion	35,413	28,320	7,093	123,460	70,508	52,952
Debenture interest and accretion	200,748	106,061	94,687	657,620	402,275	255,345
Debenture cost amortization	21,822	19,744	2,078	84,136	78,546	5,590
Net foreign exchange loss	75,619	31,643	43,976	165,432	-	165,432
Net finance costs	**339,689**	**192,689**	**147,000**	**1,060,002**	**571,562**	**488,440**

Interest income decreased in the quarter and YTD as a result of decreased average cash balances in 2013 as compared to 2012.

Net foreign exchange losses were recorded in 2013 compared to Net foreign exchange gains in 2012 due to the relative weakness of the Canadian dollar in relation to the U.S. dollar. Net foreign exchange losses were recorded in the fourth quarter of both 2012 and 2013, also due to the relative weakness of the Canadian dollar in relation to the U.S. dollar.

Interest expense decreased YTD mainly due to differences in interest owing on a short-term loan.

Government grant accretion is the recognition of the effective interest component of the SADI grant, which increased throughout 2013 as more funding was received.

Debenture interest increases are the result of increased interest accretion on the debentures issued in December 2010, and also the accretion of interest throughout 2013 on the debentures issued in April and May 2013.

Net loss

Major Category	Q4 2013 $	Q4 2012 $	Variance $	YTD 2013 $	YTD 2012 $	Variance $
Net loss	1,438,795	621,446	817,349	4,063,164	4,883,752	(820,588)
Net loss without R&D	745,444	40,436	705,008	1,882,937	2,476,015	(593,078)

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 2013, 95.4% of the Company's gross sales were made in U.S. dollars, compared to 96.1% in 2012. The Company expects this to continue since 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.

TRANSACTIONS WITH RELATED PARTIES

a) Throughout 2012, the Company engaged in transactions with a company owned by a director to supply consulting services. The related party provides business development services such as trade show attendance and corporate introductions related to the business jet initiatives of the Company.

b) During the fourth quarter of 2012, the Company did not engage in transactions with a company owned by another director to supply consulting services that had been used throughout 2011 and into the first quarter of 2012. The related party provided business development services such as market analysis and corporate introductions related to the commercial aviation initiatives of the Company.

	Included in contract labour:				Included in accounts payable and accrued liabilities:	
	For the three months ended December 31		For the year ended December 31		December 31	
	2013 $	2012 $	2013 $	2012 $	2013 $	2012 $
(a)	-	22,394	-	89,875	-	14,915
(b)	-	16,219	17,984	41,596	-	6,192
Total	**-**	**22,394**	**-**	**107,859**	**-**	**14,915**

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

CONTRACTUAL OBLIGATIONS

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

December 31, 2013	< 2 months $	2-12 months $	1-2 years $	2-5 years $	> 5 years $	Total $
Accounts payable	581,557	18,726	-	-	-	600,283
Accounts payable – SNC*	1,921,384	-	-	-	-	1,921,384
Compensation and statutory deductions	296,223	216,583	-	-	-	512,806
Finance lease liabilities	4,059	9,970	-	-	-	14,029
Accrued liabilities	40,678	75,930	-	-	-	116,608
Loans and borrowings	-	3,751,695	344,026	2,781,399	1,507,480	8,384,600
Total	**2,843,901**	**4,072,904**	**344,026**	**2,781,399**	**1,507,480**	**11,549,710**

** See contingencies section on page 39.*

In addition, the Company has repayment obligations related to three Government of Canada loan programs.

Under the Industrial Research Assistance Program ("IRAP"), the outstanding balance at December 31, 2013 was nil compared to $66,690 at December 31, 2012. The initial amount was repaid as a percentage of gross revenues over a 5 to 10 year period commencing October 2005.

Under the Technology Partnerships Canada ("TPC") program, the Company has an outstanding balance of $12,364 at December 31, 2013, compared to $28,074 at December 31, 2012. The initial amount is to be repaid based on 15% of the initial contribution, which equates to $19,122 per year for a 10 year repayment period. The yearly repayment is due if the Company has achieved more than a 10% increase in gross revenue over the previous year and the gross revenue exceeds the gross revenue that was set in fiscal 2004 of $556,127. The repayment period commenced January 1, 2005.

Under SADI, the Company has, at December 31, 2013, an outstanding repayable balance of $1,967,507, compared to $1,770,756 at December 31, 2012. The amount is repayable over 15 years on a stepped basis commencing April 30, 2014. The initial payment on April 30, 2014 is 3.5% of the total contribution received and increases yearly by 15% until April 30, 2028 when the final payment is 24.5% of the total contribution received.

In the fourth quarter of 2013, FLYHT entered into an operating lease agreement covering equipment valued at $27,657 required for a security system in the new premises effective March 1, 2014. The lease has a term of 36 months, with the option to purchase the equipment at the end of the lease term. During the fourth quarter of 2012, FLYHT did not enter into any new lease agreements. Current lease agreements are scheduled to be paid in full in 2014. Minimum lease payments in 2014 for existing finance leases total $14,028. The imputed interest included in the payments is $853 (2012 - $5,240) leaving a total obligation of $13,175 (2012 - $33,138).

CRITICAL ACCOUNTING ESTIMATES

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

The following are the Company's critical accounting policies, significant estimates, and assumptions used in preparing our financial statements:

1. The Company maintains an allowance for doubtful accounts for estimated losses that may occur if customers are unable to pay trade balances owing to the Company. This allowance is determined based on a review of specific customers, historical experience, and economic circumstances.

2. The Company evaluates its deferred tax assets at each reporting date and recognizes deferred tax assets to the extent that it is probable that future taxable profits will be available against which they can be utilized. At December 31, 2013, no deferred tax assets were recognized.

3. The Company records amounts for warranty based on historical warranty data and are recognized upon shipment of the underlying products.

4. Intangible assets are stated at cost less accumulated amortization and comprise of a license, customer contracts, and customer relationships. The license has an indefinite life. The customer contracts and relationships are amortized using the straight line method over the remaining life of the assumed contract. Indefinite lived intangible assets are subject to an annual impairment test or more frequently if events or circumstances change that indicate that the carrying value may not be recoverable.

5. The Company recognizes revenue from lease type agreements as agreement consideration, which is recorded as unearned revenue and recognized into revenue over the term of the lease agreement. Sales type agreement consideration is deferred as unearned revenue and corresponding expenses are recorded as work in progress until the system is fully functional and customer acceptance has been obtained, at which time the full deferred amount is recognized in revenue along with the work in progress as cost of sales. For both types of agreements, the revenue from UpTime usage fees is recognized at the end of each month and is based on actual usage during that month.

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

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

FINANCIAL INSTRUMENTS

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

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

There is a credit risk associated with accounts receivable where the customer fails to pay invoices. The Company extends credit generally to credit-worthy or well-established customers. In the case of agreement consideration or product sales, the invoiced amount is generally 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 a service is provided. As well, for monthly recurring revenue the Company has the ability to disable AFIRS UpTime in cases where the customer has not fulfilled its financial obligations.

CONTINGENCIES

The Company took action against SNC and is defending itself against an action by SNC related to the development of the AFIRS 228. The Company has accrued a liability of $1,921,384, which represents the total amount of invoices received from SNC. The Company maintains that the claims are without merit and that the services invoiced were not provided. Management intends to vigorously defend the matter and believes the outcome will be in its favour.

In November 2011, the Company formally notified SNC that they were in material breach of the License and Manufacturing Agreement that was entered into between the two parties on December 28, 2008. The Company demanded payment of $1,329,976 USD and $2,650,000 CDN and terminated the agreement. As well, the Company applied to the Alberta courts for arbitration under the provisions of the agreement. The courts granted the request for arbitration on November 29, 2011. Subsequent to the grant, SNC refused to recognize the jurisdiction of the court and has contested the cancellation of the agreement and the arbitration.

In November 2011, SNC filed an action in Utah alleging that FLYHT failed to pay $2,042,000 USD.

As all invoices presented to the Company by SNC have been accrued, management does not expect the outcome to have a material effect on the Company's financial position.

SUBSEQUENT EVENT

As of April 14, 2014, the Company issued a total of 4,228,280 shares due to warrant and option exercises for total proceeds of $1,333,387, including:

a) 1,971,500 warrants exercised at $0.30 for proceeds of $591,450

b) 1,405,780 warrants exercised at $0.40 for proceeds of $562,312

c) 718,500 options exercised at $0.25 for proceeds of $179,625

RECENT ACCOUNTING PRONOUNCEMENTS

The following new standards, interpretations, amendments and improvements to existing standards issued by the IASB or International Financial Reporting Interpretations Committee ("IFRIC") were adopted as of January 1, 2013 without any material impact to FLYHT's financial statements: IFRS 7 Financial Instruments: Disclosures, IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosure of interests in Other Entities, IFRS 13 Fair Value Measurement, and IAS 9 Employee Future Benefit, IAS 36 Fair Value Measurement (IAS 36 was early adopted by FLYHT).

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 7 / IAS 32 – Offsetting Financial Assets and Liabilities clarifies that an entity currently has a legally enforceable right to set-off if it is not contingent on a future event, situations under which it is enforceable, and defines related disclosure requirements (January 1, 2014).

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).

IAS 1 – Presentation of Financial Statements requires that an entity present separately the items of OCI that may be reclassified to profit and loss in the future from those that would never be reclassified (annual periods beginning on or after July 1, 2013).

IAS 39 – Novation of Derivatives and Continuation of Hedge Accounting provides some relief from the discontinuation of hedge accounting when a novation is made as a consequence of laws or regulations or the introduction of laws or regulations, subject to certain criteria (January 1, 2014).

IFRIC 21 Levies requires a liability for a levy be recognized only when the triggering event specified in the legislature occurs, even if an entity has no realistic opportunity to avoid the triggering event (January 1, 2014).

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

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