ANNUAL REPORT 2012

FLYHT AEROSPACE SOLUTIONS LTD.

MANAGEMENT DISCUSSION AND ANALYSIS

FLYHT™ The Future of Connectivity

MANAGEMENT DISCUSSION & ANALYSIS

This management discussion and analysis ("MD&A") is as of April 9, 2013 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, 2012 and 2011 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, 2012 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, because those customer deposits 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 and markets and sells its products under the FLYHT™ brand name. 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, 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 new AFIRS device, the 228B, continues to demonstrate its value in the marketplace. Since October the AFIRS 228B's remote configurable intelligence, an industry first, successfully operated on a client's aircraft reporting as per their specifications. This feature of the 228 will become increasingly important as clients around the globe adopt the AFIRS 228 technology.

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 tool that eliminates uncertainty about the effectiveness of an airline's fuel savings initiatives. FIRST can be purchased separately as a stand-alone module from the FLYHT Fuel Management System. 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 are shown. The tool is de-identified to meet pilot union requirements, but can be filtered to display performance by pilot if desired.

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

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

- Bombardier CRJ-700, 900
- Hawker Beech 750, 850XP, 900XP
- Boeing B777
- ATR-42, 72
- Boeing 747-200

FLYHT has received provisions-only STC approvals for AFIRS 228 on the following aircraft and expects full STCs in 2013:

- Boeing B737 – 600, 700, 800
- Boeing 767 – 200, 300

FLYHT has STC applications in process for AFIRS 220 or 228, expected to be submitted in 2013, depending on market requirements, for the following aircraft:

- Airbus A319, 320, 321
- Boeing 747-400
- Embraer EMB – 135/145 (includes Legacy)
- McDonnell Douglas MD-81, 82, 83, 87, 88
- Boeing 737 Classics

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

The airline industry saw that the 5.3% increase in passenger demand was slightly down on the 2011 growth of 5.9% but above the 5.0% twenty-year average. Load factors for the year were near record levels at 79.1%. Demand in international markets expanded at a faster rate (6.0%) than domestic travel (4.0%)[1], freight traffic measured in Freight Tonne Kilometers ("FTK") grew by 6% in 2012. 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 2012. Airbus delivered 588 commercial aircraft, an increase of 10% from 2011[2]. Boeing delivered 601 aircraft in 2012, a 26% increase from the previous year[3]. Embraer delivered 106 commercial jets in 2012[4]. Bombardier delivered 50 commercial aircraft, compared to 78 for the previous year. During this same period, the Company received 138 net orders for commercial aircraft, compared to 54 for the previous fiscal year[5]

On the business jet front, shipments increased by 0.6% from 2011, though billings declined slightly compared to 2011.[6] Embraer's business jet sales stayed the same with 99 deliveries in 2012 as compared to 2011.[7] Bombardier delivered 179 business jets, compared to 163 for the previous year. During this same period, the Company received 343 net orders for business jets, compared to 191 for the previous fiscal year.[8]

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 areas of concentration for the year are the certification of the AFIRS 228 in order to complete Aircraft Communications Addressing and Reporting System ("ACARS") over Iridium functionality; as well, the Company will work with Iridium Satellite Communications ("Iridium") on their voice trials for voice and data safety services messaging. The Company views these initiatives as enhancements to the industry and are steps to strengthen our revenue as we sell AFIRS 228 units and start to collect its recurring revenues.

FLYHT received customer payment for 18 installation kits in the fourth quarter of 2012 compared to 18 in the fourth quarter of 2011. In addition, revenue was recognized for 14 installation kits in the fourth quarter of 2012 compared to nine in the same period of 2011. For further explanation on how the Company recognizes revenue view the revenue recognition cycle on page 9.

The weakening of the Canadian dollar relative to the U.S. dollar during the fourth quarter of 2012 versus the same quarter of 2011 had a positive impact on the Company's revenue and income compared to the same quarter of 2011. 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 an amount 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/2013-01-31-01.aspx

2. http://www.airbus.com/newsevents/news-events-single/detail/airbus-beats-order-target-and-sets-new-company-delivery-records/

3. http://boeing.mediaroom.com/index.php?s=43&item=2576

4. http://www.embraer.com/Documents/noticias/003-Embraer%20Deliveries%204Q11-Ins-VPF-I-13.pdf

5. http://bombardier.com/en/corporate/media-centre/press-releases/details?docID=0901260d80285503

6. http://www.gama.aero/media-center/press-releases/content/gama-releases-2012-year-end-report-and-focuses-opportunities-and

7. http://www.embraer.com/Documents/noticias/003-Embraer%20Deliveries%204Q11-Ins-VPF-I-13.pdf

8. http://bombardier.com/en/corporate/media-centre/press-releases/details?docID=0901260d80285503

CONTRACTS AND ACHIEVEMENTS OF FISCAL 2012

Contracts

FLYHT Aerospace Solutions Ltd. signed a total of four contracts in 2012 for a total of 56 aircraft. We also signed an additional contract with the Nigerian Civil Aviation Authority to supply and support a Safety Management System Dashboard and L-3 Aviation Recorders.

In January, the Company signed its first contract of the year with what has become its largest Canadian customer for seven AFIRS 220 and 12 AFIRS 228B.

The Company signed a contract with NetJets Europe in March to install AFIRS 228 on 30 of the customer's Hawker Beechcraft 750/800XP aircraft. We have received the Transport Canada STC and can begin installations upon receipt of the EASA STC.

In April, the Company signed a contract with a Canadian charter airline for the AFIRS 228B on two Boeing 737-700 aircraft. The customer is FLYHT's ninth Canadian customer.

The relationship in Nigeria continued to expand in April when the Company signed an additional contract with the Nigerian Civil Aviation Authority to provide a Safety Management System Dashboard as an enhancement to the flight following system the Company installed in Lagos in 2011.

An agreement with L-3 Aviation Recorders ("L-3 AR") to sell, certify, produce and support FLYHT's AFIRS SatCom solution to their customer, Airbus for installation on new A320 and A350 aircraft was signed in May.

In October, FLYHT signed a contract with a Nigerian airline to install AFIRS 228 on five McDonnell Douglas MD-83 aircraft.

Achievements

- The first activation Supplemental Type Certificate ("STC") for the AFIRS 228 on a CRJ-900 Series aircraft was received.
- AFIRS units reached one million flight hours of real-time flight analysis on customers' aircraft in March. This is an important milestone for the Company and its customers and further establishes FLYHT's credibility in the industry.
- Shareholders approved a name change from AeroMechanical Services Ltd. to FLYHT Aerospace Solutions Ltd. On May 17, FLYHT received approval from the Toronto Stock Exchange to trade under the new symbol FLY.
- Between May 25 and July 4 (in multiple tranches) private placements at a price of $0.20 per unit totaling proceeds of $4,149,940 were closed.
- A full and final settlement of the outstanding litigation was reached in May with Star Navigation Systems Group Ltd. when the parties agreed to file dismissals of all outstanding claims and counterclaims.
- The first certification for the AFIRS 228 deployment in China from the Civil Aviation Authority of China was received.
- The Howard Group Inc. was appointed as investor relations advisors effective September 1, 2012.
- The European certification was received for the AFIRS 228 for the Hawker Beechcraft 750/800XP/850XP/900XP series aircraft from the European Aviation Safety Agency. This approval allowed for the immediate activation of the AFIRS technology on the NetJets Europe Hawker fleet.
- The Transport Canada activation STC for the AFIRS 228 on Boeing 747 -200 series aircraft was received.
- The Transport Canada activation STC for the AFIRS 228 on ATR 42/72 model aircraft was received.
- The first factory installation on a CRJ900 was completed by Bombardier Aerospace on a China Express Airlines aircraft.
- The Transport Canada activation STC for the AFIRS 228 on Boeing 777 model aircraft was received.
- Bristol Capital Ltd. was appointed as investor relations advisors in December effective January 1, 2013.

RESULTS OF OPERATIONS
YEAR ENDED DECEMBER 31, 2012 AND 2011

Quarterly Results

	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

	Q4 2011 $	Q3 2011 $	Q2 2011 $	Q1 2011 $
AFIRS UpTime sales	714,476	369,604	377,607	262,655
AFIRS UpTime usage	756,554	734,964	740,471	719,773
Parts	90,659	5,829	62,849	41,871
Services	42,952	329,798	119,984	97,153
Revenue	**1,604,641**	**1,440,195**	**1,300,911**	**1,121,452**
Loss	2,083,371	1,576,944	1,397,442	1,485,292
Loss before R&D	1,213,147	458,777	841,827	702,805
Loss per share (basic & fully diluted)	0.02	0.01	0.01	0.01

Liquidity and Capital Resource

The Company's cash at December 31, 2012 decreased to $676,246 from $1,928,065 at December 31, 2011. The Company has an available operating line of $250,000 that was undrawn as at December 31, 2012. 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, 2012, the Company had negative working capital of $2,772,247 compared to negative $2,947,863 as of December 31, 2011, an improvement of $175,616. 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, 2012 would be positive $742,068 compared to negative $327,224 at December 31, 2011.

The Company funded 2012 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 $1,184,635. It is expected that R&D expenses will continue to decrease as the AFIRS 228 project approaches completion. In addition, 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 2013 until the AFIRS 228 is fully functional, it will be able to do so either through debt or equity instruments.

	December 31, 2012 $	December 31, 2011 $	Variance $
Cash and cash equivalents	676,246	1,928,065	(1,251,819)
Restricted cash	250,000	250,000	-
Trade and other receivables	1,209,497	680,886	528,611
Deposits and prepaid expenses	99,464	199,076	(99,612)
Inventory	1,663,918	975,298	688,620
Trade payables and accrued liabilities	(3,658,254)	(4,903,537)	1,245,283
Unearned revenue	(2,717,245)	(1,639,684)	(1,077,561)
Loans and borrowings	(271,832)	(384,815)	112,983
Finance lease obligations	(19,963)	(48,715)	28,752
Current tax liabilities	(4,078)	(4,437)	359
Working capital	**(2,772,247)**	**(2,947,863)**	**175,616**
Unearned revenue	2,717,245	1,639,684	1,077,561
Customer deposits	797,070	980,955	(183,885)
Modified working capital	**742,068**	**(327,224)**	**1,069,292**

As of December 31, 2012, the Canadian equivalent of the Company's outstanding accounts payable to Sierra Nevada Corporation ("SNC") was $1,790,571 (December 31, 2011: $1,831,965) relating to their involvement with the development of the AFIRS 228. If this amount was removed from the working capital it would be negative $981,676 at December 31, 2012 and negative $1,115,898 at December 31, 2011. As well, the modified working capital would be a positive $2,532,639 at December 31, 2012 and positive $1,504,741 at December 31, 2011. 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 of 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 $1,790,571 is presently under dispute in the courts. See the Contingency section on page 33 for further clarification.

In four tranches in June and July 2012, the Company issued 20,749,700 share units pursuant to a combination of brokered and non-brokered private placements at $0.20 per share unit resulting in gross proceeds of $4,149,940. Each share unit consists of one common share and one-half share purchase warrant. Each full share unit warrant entitles the holder to acquire one common share at a price of $0.30 until 24 months after the issue date of the share purchase warrant. As at December 31, 2012 share purchase warrants outstanding totaled 10,374,850 from the four tranches: 4,595,750 will expire June 22, 2014; 1,437,500, June 27, 2014; 1,889,100, June 29, 2014 and 2,452,000 July 4, 2014. The net cash proceeds after issuance costs of the brokered and non-brokered private placements totaled $3,784,367. A further 1,223,509 agent warrants were issued which entitle the holder to acquire one common share at a price of $0.20 until 24 months after the issue date of the agent warrant. The expiry details are: 606,935, June 22, 2014; 8,750, June 27, 2014; 264,474, June 29, 2014; and 343,350 July 4, 2014.

On September 27, 2012, the Company issued 1,000,000 common shares at $0.20 per share in connection with a non brokered private placement resulting in gross proceeds of $200,000. The net cash proceeds after issuance costs was $198,115.

An additional 6,000 common shares were issued to directors, officers, employees and consultants on the exercise of options. The weighted average exercise price of these common shares was $0.25, resulting in cash proceeds of $1,500.

As at April 9, 2013, FLYHT's issued and outstanding share capital was 140,386,166.

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.

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, enable 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 all the right information has been gathered and that the product does fill a gap in the industry. The Company has already closed a number of AFIRS 228 sales. However, the Company's success will ultimately depend on the success of the product, once the final version of the product has been released to the market.

Availability of key supplies

FLYHT produces and builds all AFIRS units in-house. The Company relies on partners, suppliers and special parts to build the units. Certain parts can be delayed in shipping or availability, which can cause a delay in building the AFIRS box. FLYHT aims to avoid the risk of not having the necessary supplies by managing inventories and storing extra key parts. Additionally, the Company maintains close communication with its partners and suppliers to ensure all key components for the AFIRS device 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 with 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 occurs in a series of steps. The process begins with the receipt of customer deposits, shipment, installation and finally 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 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, 2012 and 2011. Payment was received for 17 installation kits in the fourth quarter of 2012, compared to 11 received in the fourth quarter of 2011, bringing 2012 year-to-date ("YTD") total payments for installation kits to 78, compared to a total of 39 in 2011.

	Q4 2012 $	Q4 2011 $	Variance $	YTD 2012 $	YTD 2011 $	Variance $
Opening balance	1,033,613	1,252,490	(218,877)	980,955	527,457	453,498
Payments received from customers	763,366	288,793	474,573	3,262,045	1,592,786	1,669,259
Moved to unearned revenue	(999,909)	(560,328)	(439,581)	(3,445,930)	(1,139,288)	(2,306,642)
Balance, December 31	**797,070**	**980,955**	**(183,885)**	**797,070**	**980,955**	**(183,885)**

Unearned revenue

The chart below outlines the movement in the Company's unearned revenue throughout the periods ending December 31, 2012 and 2011. Revenue was recognized for 26 installation kits in 2012's fourth quarter compared to 16 in the fourth quarter of 2011. Revenue was recognized for 59 installation kits in 2012, as compared to 39 in 2011. In 2012, 71.1% of the unearned revenue balance at December 31, 2011 was recognized as earned revenue (2011: 54.9%).

	Q4 2012 $	Q4 2011 $	Variance $	YTD 2012 $	YTD 2011 $	Variance $
Opening balance	2,741,596	2,166,725	574,871	1,897,204	2,831,878	(934,674)
AFIRS UpTime sales: shipped, not accepted	999,909	560,328	439,581	3,445,930	1,139,288	2,306,642
AFIRS UpTime usage: prepaid	116,694	40,796	75,898	376,981	113,752	263,229
AFIRS UpTime sales: revenue recognized	(1,063,933)	(777,129)	(286,804)	(2,464,784)	(1,810,540)	(654,244)
AFIRS UpTime usage: revenue recognized	(12,641)	(29,136)	16,495	(280,566)	(119,654)	(160,912)
License fees: revenue recognized	(64,380)	(64,380)	-	(257,520)	(257,520)	-
Balance, December 31	**2,717,245**	**1,897,204**	**820,041**	**2,717,245**	**1,897,204**	**820,041**

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 18.3% from $5,467,199 in 2011 to $6,469,806 in 2012. AFIRS Uptime sales increased by 42.9%, AFIRS Uptime usage increased by 4.7%, Parts sales increased by 0.6%, and Services revenue increased by 20.5%. Fourth quarter revenue increased 38.4% from $1,604,641 in Q4 2011 to $2,220,401 in Q4 2012, due to increases in AFIRS Uptime sales of 48.9%, AFIRS Uptime usage of 2.4% and Services revenue of 590.7%. These increases were partially offset by a 6.1% decrease in Parts sales.

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, 2012, there was one customer with a rental type contract (2011: two customers). 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 2012 $	Q4 2011 $	Variance $	YTD 2012 $	YTD 2011 $	Variance $
AFIRS UpTime sales	1,063,933	714,476	349,457	2,464,784	1,724,342	740,442
AFIRS UpTime usage	774,657	756,554	18,103	3,091,626	2,951,762	139,864
Parts	85,138	90,659	(5,521)	202,420	201,208	1,212
Services	296,673	42,952	253,721	710,976	589,887	121,089
Total	**2,220,401**	**1,604,641**	**615,760**	**6,469,806**	**5,467,199**	**1,002,607**

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 47.8% of revenue in 2012, compared to 54.0% in 2011. Approximately 34.9% of the Company's revenue in the fourth quarter of 2012 was recurring, compared to 47.1% in the fourth quarter of 2011. 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 2012 $	Q4 2011 $	YTD 2012 $	YTD 2011 $
North America	1,162,883	630,614	3,522,317	2,469,888
South/Central America	87,861	110,622	472,850	452,334
Africa/Middle East	817,314	585,457	1,729,862	1,787,817
Europe	13,036	3,229	150,247	133,246
Australasia	135,363	105,397	520,843	440,408
Asia	3,944	169,322	73,687	183,506
Total	**2,220,401**	**1,604,641**	**6,469,806**	**5,467,199**

	Q4 2012 %	Q4 2011 %	YTD 2012 %	YTD 2011 %
North America	52.3	39.2	54.5	45.1
South/Central America	4.0	6.9	7.3	8.3
Africa/Middle East	36.8	36.5	26.7	32.7
Europe	0.6	0.2	2.3	2.4
Australasia	6.1	6.6	8.1	8.1
Asia	0.2	10.6	1.1	3.4
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 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 2012 was 34.1% compared to 59.8% in 2011's fourth quarter. A review of the annual results shows the cost of sales as a percentage of revenue also decreased from 46.0% in 2011 to 42.8% in 2012. 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:

Period	Gross Profit
Q4 2012	65.9%
Q3 2012	60.1%
Q2 2012	43.7%
Q1 2012	54.8%
Q4 2011	40.2%
Q3 2011	62.7%
Q2 2011	59.8%
Q1 2011	56.0%

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. See Contingency section on page 33.

Distribution expenses (recovery)

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

Major Category	Q4 2012 $	Q4 2011 $	Variance $	YTD 2012 $	YTD 2011 $	Variance $
Salaries and benefits	463,650	538,331	(74,681)	1,829,053	1,790,460	38,593
Share based compensation	(40,645)	1,082	(41,727)	95,458	84,815	10,643
Contract labour	120,945	196,474	(75,529)	559,096	770,297	(211,201)
Office	81,078	92,513	(11,435)	345,648	335,959	9,689
Travel	65,429	87,955	(22,526)	315,797	260,500	55,297
Equipment & maintenance	5,369	9,314	(3,945)	31,820	55,931	(24,111)
Depreciation	13,281	-	13,281	52,956	-	52,956
Marketing	12,550	44,572	(32,022)	61,773	102,104	(40,331)
Other	12,987	102,422	(89,435)	69,604	94,863	(25,259)
Total	**734,644**	**1,072,663**	**(338,019)**	**3,361,205**	**3,494,929**	**(133,724)**

Salaries and benefits increased in 2012 as compared to 2011 mainly due to increased staffing requirements to meet ongoing needs of existing and future customers. The resulting overall increased costs were allocated between distribution and research and development expenses as a portion of the increased staff's efforts have been engaged in developing the AFIRS 228 and were expensed in Research and Development. The decrease in salaries and benefits in the fourth quarter 2012 when compared to Q4 2011 is the result of a greater allocation to research and development in Q4 2012.

Share based compensation decreased in the quarter due to a decrease in the calculated fair value per share of unvested options, while increasing for the full year 2012 due to higher level of option grants to an increased base of distribution-related staff and an increased calculated fair value per share.

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

Office expenses increased on an annual basis from 2011 to 2012 due to several factors, including increases of $6,513 in postage and courier costs as the result of a new marketing campaign in early 2012, $3,674 in training expenses, $1,228 in additional membership fees for industry groups with whom FLYHT has become involved with, and an increased rent allocation of $10,186. Offsetting these increases was a decreased allocation of communication service costs. Quarterly differences were due to a decrease in memberships of $988, decreased allocation of communication services of $4,215, decreased postage and courier costs of $1,759, and a decreased rent allocation of $2,610. The allocation differences do not represent a change in FLYHT's overall expense.

Travel expenses increased in 2012 versus 2011 largely as the result of increased travel and meals associated with sales activities. The decrease in the fourth quarter versus the same quarter of 2011 was the result of the fluctuation in travel that occurs on a quarterly basis dependent on the need to have face to face meetings with potential customers. It is anticipated that as the AFIRS 228 is rolled out, travel expenses will continue to increase on an annual basis and quarterly fluctuations will continue to occur.

Equipment and maintenance decreases throughout 2012 were due to costs associated with the movement of the UpTime hosting centre in 2011 to accommodate growth in the installation base that was not repeated in 2012. This decrease is partially offset in the fourth quarter by increased maintenance and costs associated with supporting the growth that prompted the 2011 move.

Depreciation expense increased in the quarter and throughout 2012 due to an allocation between cost centers. FLYHT's total depreciation decreased in 2012 versus 2011 by $39,922 and in the fourth quarter by $13,641 due to a decrease in the need to acquire capital equipment.

Marketing expenses decreased in the quarter and throughout 2012, due to the reduced requirement for marketing collateral throughout 2012, 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 decreased from 2011 to 2012 due to differences in bad debt adjustments. An increase in reserve of $102,078 in Q4 2011 was the result of the Chapter 11 steps taken by three customers in the first quarter of 2012, whereas the adjustment made in Q4 2012 for potential bad debt amounted to $12,897.

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 2012 $	Q4 2011 $	Variance $	YTD 2012 $	YTD 2011 $	Variance $
Salaries and benefits	359,289	403,627	(44,338)	1,253,401	1,208,138	45,263
Share based compensation	13,075	673	12,402	227,808	149,343	78,465
Contract labour	48,608	15,126	33,482	112,366	77,525	34,841
Office	78,561	71,965	6,596	324,465	312,217	12,248
Legal fees	15,169	76,863	(61,694)	142,378	173,895	(31,517)
Audit and accounting	21,550	27,549	(5,999)	104,855	129,086	(24,231)
Investor relations	33,250	25,845	7,405	93,709	135,443	(41,734)
Brokerage, stock exchange, and transfer agent fees	1,941	1,464	477	26,961	29,174	(2,213)
Travel	38,319	25,401	12,918	106,586	74,713	31,873
Equipment and maintenance	15,419	24,220	(8,801)	57,844	60,960	(3,116)
Depreciation	7,240	39,769	(32,529)	28,874	144,137	(115,263)
Other	7,608	10,157	(2,549)	17,522	22,880	(5,358)
Total	**640,029**	**722,659**	**(82,630)**	**2,496,769**	**2,517,511**	**(20,742)**

Salaries and benefits increased throughout 2012 compared with 2011, mainly due to an increased number of employees hired in the later portion of 2011 in the operations group to meet increased operations and production requirements who were employed by the Company throughout 2012. Salaries decreased in Q4 2012 as compared to the same period of 2011 due to the reduction of a full time investor relations ("IR") staff member, replaced by the reengagement of an IR consultant in late 2012.

Share based compensation increased in the quarter and in 2012 as compared to 2011 due to a higher level of option grants combined with an increase in the calculated fair value per share. This was combined with the recognition in 2012 of the partial vesting of options granted to an investment relations advisor in the fourth quarter of 2012.

Contract labour increased due to the engagement in mid-2012 of a consultant working to identify new corporate opportunities, which was offset as the result of the rebuild of FLYHT's website in 2011 that was not repeated in 2012, along with the decreased need for support relating to the conversion to IFRS.

Office expenses increased in both the fourth quarter and year over year from 2011 to 2012. The quarter's increase was due to increased memberships in industry groups of $3,374, increased insurance premiums of $6,393 and an increased rent allocation of $2,435, offset mainly by decreased office supplies of $2,567, decreased training costs of $1,387 and decreased communication costs of $1,814. Increases in 2012 included insurance expense of $18,072, an increased allocation of communication costs of $5,185, increased memberships in industry groups of $4,093 and increased training expenses of $2,302, offset by decreases of $13,530 in office supplies and a decreased rent allocation of $2,916.

Legal fees decreased in 2012 compared to 2011, mainly due to the Q2 2012 closure of legal proceedings with the Toronto-based company. This was partially offset by an increase due to legal services required with regards to research on international business processes and the implementation of the appropriate policies and documentation, along with the legal documentation required as a result of FLYHT's legal name change, and legal services required for closure of legal proceedings.

Audit and accounting expense decreases are due to the requirement for increased support during the 2011 transition to IFRS that was not needed in 2012, together with a decrease in audit fees.

Investor relations expenses decreased during 2012 as compared to 2011 due to the disengagement in early 2012 of IR consultants used in 2011 and the focus on using internal resources. The expense increased in the fourth quarter of 2012, due to the reengagement of an IR consultant near the end of 2012.

Travel expenses increased in the quarter and throughout 2012 compared to 2011 as a result of increased travel related to investor relations, and related to 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 2012, including the fourth quarter.

Depreciation expense decreased in the quarter and throughout 2012 due to an allocation between cost centers. FLYHT's total depreciation decreased in 2012 versus 2011 by $39,922 and in the fourth quarter by $13,641 due to a decrease in the need to acquire capital equipment.

Research and development expenses (recovery)

Major Category	Q4 2012 $	Q4 2011 $	Variance $	YTD 2012 $	YTD 2011 $	Variance $
Salaries and benefits	302,017	376,053	(74,036)	1,544,718	1,333,410	211,308
Share based compensation	-	-	-	12,615	6,780	5,835
Contract labour	68,135	682,396	(614,261)	1,265,032	2,373,009	(1,107,977)
Office	35,261	64,423	(29,162)	303,740	101,826	201,914
Travel	14,278	8,714	5,564	60,419	78,940	(18,521)
Equipment & maintenance	13,423	17,831	(4,408)	48,704	147,314	(98,610)
Components	65,908	204,076	(138,168)	63,267	354,693	(291,426)
Government grants	44,870	(489,285)	534,155	(585,705)	(721,683)	135,978
SRED credit	31,512	-	31,512	(327,438)	(355,982)	28,544
Depreciation	5,607	-	5,607	22,385	-	22,385
Other	-	6,016	(6,016)	-	8,186	(8,186)
Total	**581,011**	**870,224**	**(289,213)**	**2,407,737**	**3,326,493**	**(918,756)**

Salaries and benefits expended on research and development decreased throughout the fourth quarter of 2012 compared with the same period last year, as the 228B moved toward full production. An increase YTD remains, as Company staff was utilized to replace contractor resources in the later portion of 2011 and throughout 2012. It is anticipated that with the scheduled certification of the AFIRS 228 in the upcoming quarters that staffing levels will increase.

Share based compensation increased throughout 2012 due to higher level of option grants to a larger base of staff, combined with an increase in the calculated fair value per share.

Contract labour decreased from 2011, mainly as the result of reduced utilization of consultants for hardware development. With the certification phase of the AFIRS 228 in upcoming quarters the requirement for consultants will increase in order to obtain the necessary skills and experience to certify the product.

Office expenses decreased in the fourth quarter of 2012, while increasing overall in 2012 from 2011, as a result of increased costs associated with patent applications relating to the AFIRS 228 and other initiatives as well as legal fees associated with the SNC legal action.

Travel expenses increased in the fourth quarter of 2012 to partially offset the decrease year over year, due to bringing the AFIRS 228 in-house and the resulting reduction in need to travel to contractor sites.

Equipment and maintenance decreases are due to a decreased requirement to purchase software and equipment directly related to AFIRS 228 development.

Components decreased both in the quarter and year over year 2011 to 2012, as a result of the movement of parts purchased for the development of the AFIRS 228B to inventory as the remaining parts are no longer required for development but are being used in the production of units for customers.

Government grants increases are due to differences in funding received in 2011 versus 2012. The $585,705 shown in 2012 and $631,652 of the amount recorded in 2011 are the portion of funds received that has been accounted for as a grant from SADI, while the additional $90,031 in 2011 was received from the Industrial Research Assistance Program ("IRAP") program. 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 the fourth quarter of 2012 was the result of the Canada Revenue Agency SRED program's final review of the Company's 2010 SRED claim.

Depreciation expense increased in the quarter and throughout 2012 due to an allocation between cost centers. FLYHT's total depreciation decreased in 2012 versus 2011 by $39,922 and in the fourth quarter by $13,641 due to a decrease in the need to acquire capital equipment.

Net finance costs

Major Category	Q4 2012 $	Q4 2011 $	Variance $	YTD 2012 $	YTD 2011 $	Variance $
Interest income	11	21	(10)	1,958	22,412	(20,454)
Net foreign exchange gain	-	11,329	(11,329)	10,830	66,406	(55,576)
Bank service charges	5,291	5,340	(49)	20,721	21,328	(607)
Interest expense	1,641	2,274	(633)	12,300	8,662	3,638
Government grant accretion	28,320	5,512	22,808	70,508	5,512	64,996
Debenture interest and accretion	106,061	100,688	5,373	402,275	379,479	22,796
Debenture cost amortization	19,744	19,744	-	78,546	78,331	215
Net foreign exchange loss	31,643	-	31,643	-	-	-
Net finance costs	**(192,689)**	**(122,208)**	**(70,481)**	**(571,562)**	**(404,494)**	**(167,068)**

Interest income decreased in the quarter and YTD as a result of decreased average cash balances in 2012 as compared to 2011.

Net foreign exchange gains were recorded in the fourth quarter 2011 as compared to **Net foreign exchange losses** in the fourth quarter of 2012 due to the relative strength of the Canadian dollar in relation to the U.S. dollar. Net gains were less in 2012 than 2011.

Interest expense increased YTD due to a combination of interest owing on a short-term loan and an increase in equipment leased.

Government grant accretion is the recognition of the interest component of the SADI grant, which increased throughout 2012 as more funding was received.

Debenture interest increases are the result of increased interest accretion on the debentures issued in December 2010.

Net loss

Major Category	Q4 2012 $	Q4 2011 $	Variance $	YTD 2012 $	YTD 2011 $	Variance $
Net loss	621,446	2,083,371	(1,461,925)	4,883,752	6,543,049	(1,659,297)
Net loss without R&D	40,436	1,213,147	(1,172,711)	2,476,015	3,216,556	(740,541)

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 2012, 96% of the Company's gross sales were made in U.S. dollars, compared to 98% in 2011. 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**	
	2012 $	**2011 $**	**2012 $**	**2011 $**	**2012 $**	**2011 $**
(a)	22,394	22,822	89,875	88,784	14,915	15,387
(b)	-	16,219	17,984	41,596	-	6,192
Total	**22,394**	**39,041**	**107,859**	**130,380**	**14,915**	**21,579**

CONTRACTUAL OBLIGATIONS

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

December 31, 2012	**< 2 months $**	**2-12 months $**	**1-2 years $**	**2-5 years $**	**> 5 years $**	**Total $**
Accounts payable	531,548	12,045	-	-	-	543,593
Accounts payable – SNC*	1,790,571	-	-	-	-	1,790,571
Compensation and statutory deductions	136,007	180,051	-	-	-	316,058
Finance lease liabilities	4,058	20,291	14,029	-	-	38,378
Accrued liabilities	20,046	190,916	-	-	-	210,962
Loans and borrowings	24,785	313,736	3,482,088	245,218	1,464,132	5,529,959
Total	**2,507,015**	**717,039**	**3,496,117**	**245,218**	**1,464,132**	**8,429,521**

** See contingencies section on page 33.*

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

Under IRAP, the outstanding balance at December 31, 2012 was $66,690 compared to $134,550 at December 31, 2011. The initial amount is to be 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 $28,074 at December 31, 2012, compared to $47,186 at December 31, 2011. 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, 2012, an outstanding repayable balance of $1,770,756. The amount is repayable over 15 years on a stepped basis commencing April 30, 2014. The initial payment on April 30, 2014 will be 3.5% of the total contribution received and will increase yearly by 15% until April 30, 2028 when the final payment will be 24.5% of the total contribution received.

During the fourth quarters of both 2012 and 2011, FLYHT did not enter into any new lease agreements. Minimum lease payments are as follows for existing finance leases:

Year	Total $
2013	24,350
2014	14,028
Total	**38,378**

CRITICAL ACCOUNTING POLICIES AND 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. Inventories are carried at the lower of cost and net realizable value.

3. 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, 2012, no deferred tax assets were recognized.

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

5. 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.

6. 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.

   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.

   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. The convertible secured subordinate debenture has a fixed rate of interest and therefore does 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

a) 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 $1,790,571, 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.

b) In the second quarter of 2012, a full and final settlement was reached with a Toronto-based company for the outstanding claims and counterclaims that were commenced in September 2007 alleging the Company induced a breach of contract and interfered with economic relationships. The parties agreed to dismiss existing litigation on a without cost basis with no admissions of liability. Therefore there were no amounts to be recorded.

RECENT ACCOUNTING PRONOUNCEMENTS

All accounting standards effective for periods beginning on or after January 1, 2012 have been 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, 2013 / 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, 2015).

IFRS 10 – Consolidated Financial Statements builds on existing principles and standards and identifies the concept of control as the determining factor in whether an entity should be included within consolidated financial statements of the parent company (January 1, 2013).

IFRS 11 – Joint Arrangements establishes the principles for financial reporting by entities when they have an interest in arrangements that are jointly controlled (January 1, 2013).

IFRS 12 – Disclosure of Interest in Other Entities provides disclosure requirements for interests held in other entities including joint arrangements, associates, special purpose entities and other off balance sheet entities (January 1, 2013).

IFRS 13 – Fair Value Measurement defines fair value, requires disclosure of fair value measurements and provides a framework for measuring fair value when it is required or permitted within the IFRS standards (January 1, 2013).

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, 2012).

IAS 19 – Employee Benefits clarifies the distinction between short-term and other long-term employee benefits and removes policy choice for recognition of actuarial gains and losses. (January 1, 2013).

IAS 28 - Investments in Associate and Joint Ventures revised the existing standard and prescribes the accounting for investments and sets out requirements for application of the equity method when accounting for investments in associates and joint ventures (January 1, 2013).

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