2020

FINANCIAL STATEMENTS

FLYHT AEROSPACE SOLUTIONS LTD.

INSIGHT • ACTION • CONTROL

INDEPENDENT AUDITORS' REPORT

To the Shareholders of FLYHT Aerospace Solutions Ltd.

Opinion

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

- the consolidated statements of financial position as at December 31, 2020 and December 31, 2019;
- the consolidated statements of comprehensive loss for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended;
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements".)

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2020 and December 31, 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

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

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

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

Material Uncertainty Related to Going Concern

We draw attention to Note 2(e) in the financial statements, which indicates that the Company incurred losses of $3.3 million and $0.7 million for the years ended 2020 and 2019 respectively and as at December 31, 2020 has a deficit of $73.3 million.

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

Our opinion is not modified in respect of this matter.

Other Information

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

- the information included in Management's Discussion and Analysis to be filed with the relevant Canadian Securities Commissions.
- the information, other than the financial statements and the auditor's report thereon, included in a document entitled "2020 Annual Report".

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

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

We obtained the information included in the Management's Discussion and Analysis and the 2020 Annual Report to be filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report. We have nothing to report in this regard.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represents the underlying transactions and events in a manner that achieves fair presentation.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

The engagement partner on the audit resulting in this auditor’s report is Reinier Deurwaarder.

KPMG LLP

Chartered Professional Accountants
Calgary, Canada
April 7, 2021

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31, 2020 $	December 31, 2019 $
Assets		
Current assets		
Cash and cash equivalents (note 5)	5,127,963	4,127,648
Trade and other receivables (note 6)	1,587,275	4,980,405
Contract assets	187,892	256,125
Deposits and prepaid expenses	544,052	797,759
Inventory (note 7)	1,561,959	1,672,068
Total current assets	9,009,141	11,834,005
Non-current assets		
Property and equipment (note 8)	3,035,392	1,337,306
Intangible assets (note 9)	34,992	34,992
Inventory (note 7)	1,656,710	1,529,923
Total non-current assets	4,727,094	2,902,221
Total assets	**13,736,235**	**14,736,226**
Liabilities		
Current liabilities		
Trade payables and accrued liabilities (note 10)	2,128,941	2,346,560
Customer deposits (note 11)	492,679	160,706
Contract liabilities (note 12)	-	658,655
Loans and borrowings (note 13)	2,376,594	718,015
Lease liability (note 14)	679,816	625,590
Total current liabilities	5,678,030	4,509,526
Non-current liabilities		
Loans and borrowings (note 13)	3,012,136	4,160,920
Lease liability (note 14)	2,157,326	457,094
Provisions (note 15)	24,103	30,202
Total non-current liabilities	5,193,565	4,648,216
Total liabilities	**10,871,595**	**9,157,742**
Equity		
Share capital (note 16)	63,995,030	63,508,080
Convertible debenture – equity feature	173,524	173,524
Warrants (note 16)	1,195,396	1,247,311
Contributed surplus	10,832,085	10,647,771
Cumulative translation adjustment	(51,000)	(32,176)
Deficit	(73,280,395)	(69,966,026)
Total equity	2,864,640	5,578,484
Total liabilities and equity	**13,736,235**	**14,736,226**

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

On behalf of the board

Director – Doug Marlin

Director – Paul Takalo

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

	For the year ended December 31	
	2020	**2019**
	$	**$**
Revenue (note 18)	13,652,985	21,171,159
Cost of sales	4,395,886	8,844,357
Gross profit	9,257,099	12,326,802
Distribution expenses (note 20)	5,391,864	8,295,769
Administration expenses (note 21)	4,056,636	4,213,919
Research, development and certification engineering expenses (note 22)	3,338,242	3,769,514
Loss from operating activities	(3,529,643)	(3,952,400)
Other Income (note 19)	806,913	4,126,573
Finance income (note 23)	(464,690)	(29,810)
Finance costs (note 23)	978,456	950,618
Net finance costs	513,766	920,808
Loss before income tax	(3,236,496)	(746,635)
Income tax (note 24)	(961)	-
Loss	(3,237,457)	(746,635)
Foreign currency translation adjustment	(18,824)	(67,814)
Comprehensive loss	(3,256,281)	(814,449)
Loss per share		
Basic and diluted loss per share (note 17)	(0.12)	(0.04)

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the years ended December 31, 2020 and 2019

	Share Capital $	Convertible Debenture $	Warrants $	Contributed Surplus $	Cumulative Translation Adjustment	Deficit $	Total Equity (Deficit) $
Balance at January 1, 2020	63,508,080	173,524	1,247,311	10,647,771	(32,176)	(69,966,026)	5,578,484
Income for the period	-	-	-	-	(18,824)	(3,237,457)	(3,256,281)
Total comprehensive loss	-	-	-	-	(18,824)	(3,237,457)	(3,256,281)
Contributions by and distributions to owners							
Share-based payment transactions	-	-	-	159,885	-	-	159,885
Warrant modification	-	-	76,912	-	-	(76,912)	-
Warrants exercised	486,950	-	(104,398)	-	-	-	382,552
Warrants expired	-	-	(24,429)	24,429	-	-	-
Total contributions by and distributions to owners	486,950	-	(51,915)	184,314	-	(76,912)	542,437
Balance at December 31, 2020	63,995,030	173,524	1,195,396	10,832,085	(51,000)	(73,280,395)	2,864,640
Balance at January 1, 2019	58,430,455	207,273	50,712	10,494,208	35,638	(69,219,391)	(1,105)
Income for the period	-	-	-	-	(67,814)	(746,635)	(814,449)
Total comprehensive loss	-	-	-	-	(67,814)	(746,635)	(814,449)
Contributions by and distributions to owners							
Issue of common shares	5,553,519	-	1,115,506	-	-	-	6,669,025
Share issue costs	(801,384)	-	(160,970)	-	-	-	(962,354)
Share-based payment transactions	-	-	-	153,563	-	-	153,563
Conversion of debt	325,490	(33,749)	-	-	-	-	291,741
Agent warrants issued	-	-	242,063	-	-	-	242,063
Total contributions by and distributions to owners	5,077,625	(33,749)	1,196,599	153,563	-	-	6,394,038
Balance at December 31, 2019	63,508,080	173,524	1,247,311	10,647,771	(32,176)	(69,966,026)	5,578,484

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the year ended December 31 2020 $	2019 $
Cash flows used in operating activities		
Loss for the period	(3,237,457)	(746,635)
Depreciation – property and equipment	828,528	834,479
Loss on disposal of PPE	39,789	6,938
Convertible debenture accretion	254,571	256,780
Lease liability accretion	134,246	91,977
Grant portion of contributions from WINN	(119,047)	(114,605)
CARES (PPP) loan forgiveness	(745,472)	-
Gain on loan modification	(419,682)	-
Government loan accretion	420,422	396,350
Equity-settled share-based payment transactions	159,885	153,563
Change in inventories	(16,678)	(1,090,279)
Change in trade and other receivables	3,327,220	(1,499,567)
Change in contract assets	68,233	139,570
Change in prepayments	253,707	(570,694)
Change in trade and other payables	(268,436)	(45,525)
Change in customer deposits	331,973	(501,127)
Change in contract liabilities	(143,309)	143,309
Change in provisions	2,636	37,454
Provision used	(8,735)	(50,953)
Unrealized foreign exchange loss	220,987	23,725
Other interest expense	140	95,050
Interest paid	(192,992)	(208,848)
Interest income	(45,008)	(29,810)
Interest received	44,036	23,384
Income tax expense	961	-
Income tax paid	(961)	(272)
Net cash from (used in) operating activities	889,557	(2,655,736)
Cash flows used in investing activities		
Acquisitions of property and equipment (PPE)	(347,587)	(169,326)
Net cash used in investing activities	(347,587)	(169,326)
Cash flows from financing activities		
Subsidy payment received	231,377	3,116,935
Less subsidy recognized (note 12)	(806,913)	(4,126,573)
Net proceeds from private placement	-	5,948,733
Proceeds from exercise of warrants	382,552	-
Contributions from CARES (PPP)	745,472	-
Contributions from WINN	624,480	376,580
Repayment of borrowings	(117,000)	(137,234)
Lease payments	(560,810)	(544,583)
Net cash from financing activities	499,158	4,633,858
Net increase in cash and cash equivalents	1,041,128	1,808,796
Cash and cash equivalents, beginning	4,127,648	2,406,769
Effect of exchange rate fluctuations on cash held	(40,813)	(87,917)
Cash and cash equivalents, ending	5,127,963	4,127,648

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2020 and 2019

1. Reporting entity

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

FLYHT provides airlines with Actionable Intelligence to transform operational insight into immediate, quantifiable action, delivering industry leading solutions to improve aviation safety, efficiency and profitability. This unique capability is driven by FLYHT’s patented aircraft certified hardware products including AFIRS™, a satcom aircraft interface device which enables real-time streaming of flight information, cockpit voice and black box data streaming and TAMDAR™, which aggregates and streams airborne weather data in real-time.

2. Basis of preparation

(a) Basis of accounting

These consolidated annual financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”). These consolidated financial statements were approved by the Board of Directors on April 7, 2021.

(b) Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis, which are measured at fair value in the statement of financial position.

(c) Functional and presentation currency

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

(d) COVID-19

While most industries have felt the effects of COVID-19 over the past year, the pandemic has substantially impacted commercial aviation. From early January 2020 onward, daily departures from major airports have declined significantly. International travel has been severely curtailed, and airlines are taking extraordinary measures to preserve cash. Industry layoffs and furloughs have been accelerating, accounts payable have been pushed out, and capital equipment orders have been delayed or restructured. Various segments of the aviation industry have been impacted differently over the past year, with the decline in commercial aviation being partially offset by an increased demand for cargo services. Geographic differences continue to occur, as subsequent pandemic waves affect different parts of the globe at different times, vaccination programs vary greatly between countries, and remote locations of the world maintaining their supply chain and connection to the rest of the world via air transport.

Due to the equity raise in November 2019, which improved the Company’s working capital, the Company entered 2020 with a relatively robust cash position. Despite the negative revenue impact of COVID-19 throughout the year, the Company was able to increase cash levels throughout 2020. The Company anticipates continued negative revenue impact in the near-term due to customers rescheduling orders and decreases in air traffic, which will continue to impact the Company’s corresponding hardware and SaaS revenues, and a potential impact on the Company’s ability to collect accounts receivable. This is reflected in the negative trend in the bad debt reserve while airline recovery timing is still to be determined. The Company’s bad debt reserve at December 31, 2020 has increased to $1,003,574 from $544,880 at December 31, 2019.

To preserve the Company's liquidity through this period of commercial aviation uncertainty, the following measures have been undertaken: Focused development on long-term SaaS partnerships, including the launch of Actionable Intelligence

- Focused spending on immediate revenue opportunities
- Access to governmental support
- Cost containment and cash conservation
- Working with existing partner airlines to assist in their recovery

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

As of December 31, 2020, the Company has recognized a total of $2.1 million in government financial relief related to COVID-19 which has been applied to offset associated expenses in all three expense categories (Distribution, Administration and Research & Development). All grant funds received to date have been recognized in profit and loss.

(e) Going concern

The consolidated financial statements have been prepared on the basis that the Company will continue to realize its assets and meet its obligations in the ordinary course of business. At December 31, 2020, the Company had positive working capital of $3,664,545 compared to positive $7,324,479 as of December 31, 2019, a decrease of $3,659,934. The Company ended 2020 with balances of $5.1 million in cash and cash equivalents, an undrawn credit facility of $1.5 million and $2.0 million in contributions under WINN loans not yet received. However, for the years ended December 31, 2020 and 2019, the Company incurred losses of $3.2 million and $0.7 million respectively and as at December 31, 2020 has a deficit of $73.3 million.

For the Company to continue as a going concern longer-term, it will need to achieve profitability and maintain positive operating cash flows. The Company will continue to expand its earnings and cash flow potential through its focused marketing efforts, expected to result in additional contracts for delivery of hardware units and related services. However, the negative impact to the commercial air industry from the COVID-19 pandemic is unprecedented. The reduction in the number of flights is expected to continue to impact the amount of SaaS revenue generated by the Company, while deferred and/or lower investments in airplanes may continue to negatively impact the Company's hardware and license revenues, with timing of recovery to pre-pandemic levels being uncertain.

Until achieving consistent net income and positive operating cash flows, it is the Company's intention to continue to fund operations through revenue and its resulting cash flow as well as continue to manage outgoing cash flows. The Company may have to scale back operations to create positive cash from existing revenue and/or raise the necessary financing in the capital markets through debt and/or equity.

There is no assurance that the Company will be successful in attaining and sustaining profitable operations and positive cash flow and/or raising additional capital to meet its capital requirements. If the Company is unable to satisfy its working capital requirements from these sources, the Company's ability to continue as a going concern and to achieve its intended business objectives will be adversely affected.

As a result of these factors, there is a material uncertainty that may result in significant doubt as to the Company's ability to to meets its obligations as they come due and continue as a going concern.

If the going concern assumption was not appropriate for these consolidated financial statements, adjustments would be necessary to the carrying value of assets and liabilities, the reported revenues and expenses and the statement of financial position classification used.

(f) Use of judgements and estimates

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

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

1. Recognition of deferred tax assets: the availability of future taxable profit against which deductible temporary differences and tax losses carried forward can be utilized.

2. Recognition and measurement of provisions and contingences: key assumptions about the likelihood and magnitude of an outflow of resources.

3. Measurement of expected credit loss allowance for trade receivables: the expected credit loss is determined by assessing potential credit impairment at each reporting date.

4. The Company assesses raw materials and finished goods inventory for potential obsolescence or impairment. This provision is determined based on regular reviews of slow-moving inventory.

5. The fair value of WINN contributions: a discount rate is used to determine the portion of the contribution to be categorized as a repayable loan at below market interest rates. The discount rate is determined based on debt market conditions as well as factors specific to the Company's operations and financial position.

6. Valuation of convertible debt instruments: a discount rate is used to determine the fair value of the loan in the year of issuance.

7. Revenue recognition: accounting for revenue from customers requires management to make judgements when identifying performance obligations in each contract. Estimates are required to be made when determining the transaction price and when allocating the transaction price to the performance obligations identified, and, for certain contracts, when measuring progress of the transfer of the performance obligation.

3. Significant accounting policies

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

(a) Basis of consolidation

(i) Subsidiaries

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

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

(ii) Transactions eliminated on consolidation

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

(b) Financial instruments

(i) Recognition and measurement

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

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

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

(ii) Derecognition

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

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

(iii) Offsetting

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

(iv) Share capital

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

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

(v) Compound financial instruments

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

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

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

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

(c) Inventories

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

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

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

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

(d) Property and equipment

(i) Recognition and measurement

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

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

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

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

(ii) Subsequent costs

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

(iii) Depreciation

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

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

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

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

(i) Recognition and measurement

R&D costs consist primarily of consulting expenses and parts related to the design, testing, and manufacture of AFIRS, FlightLink and TAMDAR systems and the design and testing of all software systems and products (including AirMap, UpTime, FLYHTASD, FLYHTMail, FLYHTStream, and Actionable Intelligence). Other R&D costs include testing, patent application and certification.

Expenditure on research activities is expensed as incurred.

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

(ii) Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditures are recognized in profit or loss as incurred.

(iii) Amortization

Amortization is calculated based on the asset's cost less its residual value.

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

(f) Leases

(i) Recognition and measurement

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

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

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

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

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

(ii) Amortization

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

(g) Intangible assets

Intangible assets that are acquired by the Company and have finite useful lives are measured at cost less accumulated amortization and accumulated impairment losses. An intangible asset is derecognized on disposal or when no future economic benefits are expected from its use or disposal.

(h) Government assistance

(i) Government grants

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

(ii) Government loans

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

(i) Business combinations

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

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

(j) Provisions

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

(i) Warranties

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

(k) Impairment

(i) Non-derivative financial assets

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

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

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

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

(ii) Non-financial assets

At each reporting date, the Company reviews the carrying amounts of its non-financial assets (other than inventories and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the assets recoverable amount is estimated.

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

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

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

(l) Revenue

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

(i) SaaS

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

(ii) Hardware

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

(iii) Licensing

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

(iv) Technical Services

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

(m) Employee benefits

(i) Short-term employee benefits

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

(ii) Share-based payment transactions

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

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

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

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

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

(i) Stock options granted to consultants

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

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

(ii) Agent warrants

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

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

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

(o) Finance income and finance costs

Finance income comprises interest income and the foreign currency gain on financial assets and financial liabilities which is recognized in profit or loss as it accrues using the effective interest method.

Finance costs comprise interest expense and accretion on borrowings and lease liabilities, and the unwinding of the discount on provisions, and are recognized in profit or loss using the effective interest method whereby the amount of the discount is amortized to interest expense over the expected life of the instrument.

(p) Foreign currency

(i) Foreign currency transactions

Foreign currency transactions are translated to Canadian dollars at the exchange rate in effect on the transaction date. Foreign currency denominated monetary assets and liabilities at each reporting date are retranslated to the functional currency at the exchange rate in effect on that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate in effect on the date of the transaction.

Foreign currency differences arising on retranslation are recognized in profit or loss, categorized as finance income or costs.

(ii) Foreign operations

The assets and liabilities of foreign operations are translated to Canadian dollars at exchange rates in effect at the reporting date. The income and expenses of foreign operations are translated to Canadian dollars at exchange rates in effect on the transaction dates.

Foreign currency differences are recognized in other comprehensive income in the cumulative translation account.

(q) Income tax

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

(i) Current tax

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

(i) Deferred tax

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

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

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

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

(r) Earnings per share

The Company presents basic and diluted earnings per share (“EPS”) data for its common shares. Basic EPS is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted EPS is determined each period by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding, for the effects of all dilutive potential common shares, which comprise debentures, convertible debentures, share options, and warrants.

4. Measurement of fair values

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

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

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

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

(a) Cash and cash equivalents, trade and other receivables, trade payables and accrued liabilities: carrying value approximates fair value, due to the short-term nature of the instruments.

(b) Loans and borrowings: for measurement purposes, fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the inception of the loan. In respect of the liability component of convertible debentures, the market rate of interest is determined by reference to similar liabilities that do not have a conversion feature.

5. Cash and cash equivalents

Cash and cash equivalents consist of cash balances and bank deposits with an original maturity of three months or less.

6. Trade and other receivables

	December 31, 2020	**December 31, 2019**
	$	**$**
Trade receivables	1,585,437	4,949,972
Non-trade receivables and accrued receivables	1,838	30,433
Total	**1,587,275**	**4,980,405**

Non-trade receivables consist of input tax credits. The Company's exposure to credit and currency risks is disclosed in note 25.

7. Inventory

	December 31, 2020	**December 31, 2019**
	$	**$**
Raw materials	1,973,869	2,270,621
Work in progress	12,195	3,858
Finished goods	1,232,605	927,512
Balance	**3,218,669**	**3,201,991**
Less current portion	(1,561,959)	(1,672,068)
Non-current portion	1,656,710	1,529,923

In 2020 Raw materials and Finished goods recognized as cost of sales amounted to $1,956,743 (2019: $4,834,375). Included in this amount was a write down of inventories amounting to $42,774 (2019: $88,814) resulting from the review of slow moving inventory parts. All inventories are pledged as security for the bank loan and the convertible debenture (note 13).

8. Property and equipment

2020	Computers and Software $	Equipment $	Leasehold Improvements $	Leased Assets $	Total $
Cost					
Balance at January 1	1,000,948	445,233	67,219	1,535,290	3,048,690
Additions	121,011	226,576	-	2,258,667	2,606,254
Disposals	(311,363)	(129,815)	(49,110)	-	(490,288)
Cumulative translation adjustment	(4,143)	(971)	(403)	(22,264)	(27,781)
Balance at December 31	806,453	541,023	17,706	3,771,693	5,136,875
Accumulated Depreciation					
Balance at January 1	773,757	279,324	48,573	609,730	1,711,384
Depreciation for the year	112,241	48,645	11,484	656,158	828,528
Disposals	(296,680)	(104,709)	(49,110)	-	(450,499)
Cumulative translation adjustment	1,635	709	167	9,559	12,070
Balance at December 31	590,953	223,969	11,114	1,275,447	2,101,483
Carrying Amounts					
At January 1	227,191	165,909	18,646	925,560	1,337,306
At December 31	**215,500**	**317,054**	**6,592**	**2,496,246**	**3,035,392**

2019	Computers and Software $	Equipment $	Leasehold Improvements $	Leased Assets $	Total $
Cost					
Balance at January 1	1,016,910	382,036	64,034	-	1,462,980
Adoption of IFRS 16	-	-	-	1,548,834	1,548,834
Additions	97,444	63,295	3,006	32,687	196,432
Disposals	(112,347)	-	-	-	(112,347)
Cumulative translation adjustment	(1,059)	(98)	179	(46,231)	(47,209)
Balance at December 31	1,000,948	445,233	67,219	1,535,290	3,048,690
Accumulated Depreciation					
Balance at January 1	702,819	247,079	32,812	-	982,710
Depreciation for the year	176,432	32,260	15,768	610,019	834,479
Disposals	(105,410)	-	-	-	(105,410)
Cumulative translation adjustment	(84)	(15)	(7)	(289)	(395)
Balance at December 31	773,757	279,324	48,573	609,730	1,711,384
Carrying Amounts					
At January 1	314,091	134,957	31,222	-	480,270
At December 31	**227,191**	**165,909**	**18,646**	**925,560**	**1,337,306**

As of December 31, 2020, all property and equipment are pledged as security for the bank loan and the convertible debenture (note 14).

9. Intangible assets

The intangible assets are the value of a license purchased from Bombardier that allows FLYHT access to technical documents for their CRJ aircraft. It has an indefinite life, is not amortized, and is tested for impairment annually. The Company continues to support customer aircraft built by Bombardier and foresees no end to the usefulness of those technical documents.

Intangible assets are pledged as security for the bank loan and the convertible debenture (note 13).

10. Trade payables and accrued liabilities

	December 31, 2020 $	December 31, 2019 $
Trade payables	1,120,306	1,811,948
Compensation and statutory deductions	920,694	422,778
Accrued liabilities	87,941	111,834
Balance, December 31	**2,128,941**	**2,346,560**

Compensation and statutory deductions include accrued vacation pay, variable compensation, accrued compensation, accrued retiring allowance and statutory payroll deductions. Compensation and statutory deductions includes $143,898 in accrued compensation payable to an officer of the Company.

11. Customer deposits

	December 31, 2020 $	December 31, 2019 $
Opening balance	160,706	661,833
Payments received	3,410,369	3,931,575
Recognized as revenue	(3,078,396)	(4,432,702)
Balance, December 31	**492,679**	**160,706**

12. Contract liabilities

	December 31, 2020 $	December 31, 2019 $
Opening balance	658,655	1,524,984
Payments received	231,377	3,116,935
Recognized in Other Income	(806,913)	(4,126,573)
Effect of exchange rate variance	60,190	-
Weather licensing	(143,309)	143,309
Balance, December 31	**-**	**658,655**

In October 2018 FLYHT acquired the assets of PWS. Pursuant to a transition agreement between the parties, to keep the asset acquisition cash-flow neutral to FLYHT during an 18-month transition period, FLYHT was expected to receive a subsidy of $3.3 million USD. This subsidy was increased because FLYHT's income relating to the acquired assets fell short of certain agreed upon thresholds. The subsidy was paid over the term of the transition period, and the portion of the amounts received that relate to future periods were held in Contract Liabilities until they were recognized in Other Income on the Consolidated Statement of Comprehensive Loss and included in Cash flows used in operating activities in the Consolidated Statement of Cash Flows. All subsidies under this agreement were recognized by the end of Q2 2020.

The 2019 weather licensing contract liability related to contract initiation and exclusivity fees, reflecting the timing difference between revenue recognition and contracted billing milestones.

13. Loans and borrowings

	2020 Face value $	2020 Carrying value $	2019 Face value $	2019 Carrying value $
SADI loan	1,370,247	1,262,090	1,370,247	1,340,262
WINN loan	3,021,262	2,470,580	2,513,782	2,003,235
Convertible debenture	1,806,425	1,656,060	1,940,374	1,535,438
Balance, December 31	**6,197,934**	**5,388,730**	**5,824,403**	**4,878,935**
Less current portion	2,570,296	2,376,594	720,769	718,015
Non-current portion	3,627,638	3,012,136	5,103,634	4,160,920

Bank loan

The Company has an operating demand loan available through a Canadian chartered bank for up to a maximum of $1.5 million CAD or 90% of the Company's receivable balance, drawn either in CAD or USD. The operating demand loan bears interest at the Canadian chartered bank prime plus 1.5% (CAD) or US prime plus 4.5% (USD). Security includes specific accounts receivable, a guarantee under the Export Development Canada's Export Guarantee Fund and a general security agreement including a security interest in all personal property. The facility was undrawn at both December 31, 2019 and 2020.

Government loans

In November 2016, the Company signed a contribution agreement with Western Economic Diversification Canada for a Western Innovation initiative (WINN) loan, to support plans for technology development in the air and ground components of the Company's products. Under the terms of the agreement, a repayable unsecured WINN contribution to the value of the lesser of 50% of the eligible project costs to March 31, 2019 or $2,350,000 was eligible to be received. The amount is repayable over five years commencing January 1, 2020. The full amount was received by the Company by the end of 2019.

In November 2018, the Company signed a second contribution for a (WINN) loan, to support development of the next generation of AFIRS hardware and embedded software to address parts obsolescence issues and add new market-driven features. Under the terms of the agreement, a repayable unsecured WINN contribution to the value of the lesser of 44% of the eligible project costs to April 30, 2021 or $2,761,000 will be received. A March 31, 2019 amendment adjusted the end date for eligible project costs to September 30, 2021. The amount is repayable over five years commencing October 1, 2021. At December 31, 2020, the Company had received contributions totaling $788,262 under this loan (2019: 163,782). The fair value of the grants received in 2020 was calculated using an interest rate of 12% (2019: 12%).

Both WINN loans are interest free.

Under SADI, the Company received a loan of $1,967,507 which is repayable over 15 years on a stepped basis commencing April 30, 2014. The initial payment on April 30, 2014 was 3.5% of the total contribution received and the payment increases yearly by 15% until January 31, 2029 when the final payment is 24.5% of the total contribution received.

In 2020, in response to the COVID-19 pandemic, the repayment terms of the SADI and WINN loans were modified, to defer repayments for a period of 9 months. This modification resulted in a gain on the SADI and WINN loans of $279,723 and $139,959 respectively.

A summary of the carrying value of the SADI and WINN loans as at December 31, 2020 and 2019 and changes during these years is presented below.

	2020 SADI $	2020 WINN $	2020 Total	2019 SADI $	2019 WINN $	2019 Total
Balance January 1	1,340,262	2,003,235	3,343,497	1,252,743	1,569,663	2,822,406
Contributions received	-	624,480	624,480	-	376,580	376,580
Grant portion	-	(119,047)	(119,047)	-	(114,605)	(114,605)
Interest accretion	201,551	218,871	420,422	224,753	171,597	396,350
(Gain) on loan modification	(279,723)	(139,959)	(419,682)	-	-	-
Repayment	-	(117,000)	(117,000)	(137,234)	-	(137,234)
Balance December 31	**1,262,090**	**2,470,580**	**3,732,670**	**1,340,262**	**2,003,235**	**3,343,497**
Less current portion	156,258	564,276	720,534	151,750	439,899	591,649
Non-current portion	1,105,832	1,906,304	3,012,136	1,188,512	1,563,336	2,751,848

Convertible Debenture

The Company issued debentures with a face value of $2,000,000 on July 24, 2018. They will mature on July 24, 2021 (if not otherwise converted) and bear interest at a rate of 8% per annum, which shall be accrued and paid annually in arrears. The Debentures are convertible at the option of the debenture holder into common shares of FLYHT (Common Shares) at a conversion rate of $1.30 per share at any time prior to maturity, subject to a forced conversion (at a conversion rate of $1.30 per share) into Common Shares should the closing price of the Company's Common Shares be equal to or exceed $1.80 for 20 consecutive trading days. During 2020, no convertible debentures were converted into common shares.

Purchasers of the Debentures also received 769,200 warrants (Warrants) (for every $1.00 principal amount of Debentures acquired pursuant to the offering, Debenture holders received approximately 0.3846 Warrants). The original agreement allowed for each whole Warrant to be exercised to acquire one Common Share of Flyht for a period of two (2) years from the date of issuance at an exercise price of $1.45 per share.

In July 2020 the Company amended the exercise price of the Warrants to $0.60 and extended the term of the Warrants to December 24, 2020, subject to 30-day acceleration if, for any ten consecutive trading days during the unexpired term of such Warrants, the closing price of the Company's Shares is greater than $0.72. Of these Warrants, 622,885 were exercised prior to expiry, while the remaining 146,345 expired on December 24, 2020. The warrant modification resulted in an increase of $76,912 to the value of the warrants (note 16).

The Debentures are secured against all personal property of the Company and are subordinated in right of payment to all existing and future secured bank and/or governmental indebtedness of the Company and any existing security already registered against FLYHT's assets.

	2020 $	2019 $
Balance January 1	1,535,438	1,727,773
Interest payments	(133,949)	(133,949)
Conversions	-	(315,166)
Accrued interest	254,571	256,780
Carrying amount of liability at December 31	**1,656,060**	**1,535,438**
Less current portion	1,656,060	126,366
Non-current portion	**-**	**1,409,072**

14. Lease liability

On March 1, 2020 the leasing arrangement for the new corporate head office of FLYHT commenced. The terms of the lease include a 16-month period, followed by an initial 10-year contract term with annual payment amounts beginning at $261,606 for the first 3 years, escalated by approximately 6% for years 4-6, an additional 6% for years 7-9, and an additional 6% for the final year. At inception in Q1 2020, the Company recognized a right of use asset of $2,257,457 in Property and Equipment and a lease liability for the same amount. The amount was determined using a discount rate of 3.95%, based on the incremental borrowing rate of the Company, and a lease term of 136 months. Amortization of the asset and accretion of the associated lease liability commenced on March 1, 2020.

Depreciation of the lease asset related to FLYHT's former corporate head office, together with depreciation of the related leasehold improvements, was accelerated and the assets were fully depreciated in Q3 2020 in conjunction with the move to the new office space. The lease contract for the former premises expires in February 2021 with lease payments continuing until lease completion.

	2020 $	2019 $
Opening balance	1,082,684	1,548,834
Additions	2,258,667	32,687
Finance costs (note 23)	134,386	91,977
Lease payments	(619,853)	(544,583)
Cumulative translation adjustment	(18,742)	(46,231)
Balance, December 31	**2,837,142**	**1,082,684**
Less current portion	679,816	625,590
Non-current portion	**2,157,326**	**457,094**

15. Provisions

Product warranty	2020 $	2019 $
Balance January 1	30,202	43,701
Provision made during the period	1,151	4,705
Provision extinguished	(765)	(5,706)
Provision re-evaluation	2,250	38,455
Provision used during the period	(8,735)	(50,953)
Balance, December 31	**24,103**	**30,202**

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

16. Capital and other components of equity

Share capital

Authorized:

Unlimited numbers of common shares, and classes A, B and C preferred shares, issuable in series, having no par value.

The preferred shares may be issued in one or more series. The directors are authorized to fix the number of shares in each series and to determine the designation, rights, privileges, restrictions and conditions attached to the shares in each series.

Issued and outstanding:

Common shares:	**Number of Shares**	**Value $**
Balance January 1, 2019	21,068,617	58,430,455
Convertible debenture conversion	250,491	325,490
Issued in private placement	5,335,220	6,669,025
Share issue costs	-	(801,384)
Warrants issued	-	(1,115,506)
Balance December 31, 2019	26,654,328	63,508,080
Exercise of warrants	624,696	486,950
Balance December 31, 2020	**27,279,024**	**63,995,030**

On November 15, 2019, the Company closed the first tranche of a private placement, issuing 4,792,400 units for gross proceeds of $5,990,500, with the second and final tranche, consisting of 542,820 units for gross proceeds of $678,525, closing on November 25, 2019. Each unit consisted of one common share and one-half of one share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share of the Company for a period of 24 months from the issuance of the units at a price of $1.75. Agents were paid a cash commission of 7% of the gross proceeds. A total of 335,468 agent warrants were also issued, each exercisable into one common share at $1.25 per unit within 24 months from the closing date. A corporate finance fee of $45,000 was also paid, together with 35,000 corporate finance warrants, each exercisable into one common share at a price of $1.25 for a period of 24 months. All common shares and warrants issued pursuant to the private placement were subject to a 4-month hold period. Of the total proceeds received, $1,115,506 net of transaction costs of $160,970, was allocated to the warrants issued, with the remaining $5,553,519 net of transactions costs of $801,384, being allocated to the shares issued.

In 2020 warrant exercises resulted in the Company issuing 624,696 shares for total proceeds of $382,552. No options were exercised nor were any debentures converted in 2020.

Stock option plan

The Company grants stock options to its directors, officers, employees and consultants. The following stock options were granted in 2020:

- 755,300 stock options to employees, officers and directors under the stock option plan with an exercise price of $0.59. The options will vest in equal tranches on June 23, 2021, 2022 and 2023 and will expire on June 23, 2024.
- 160,000 stock options to a consultant with an exercise price of $0.49. The options will vest in equal tranches on November 5, 2020, and February 5, May 5 and August 5, 2021. These options are set to expire on August 5, 2023.
- 11,240 stock options to three employees under the stock option plan with an exercise price of $0.52. The options will vest in equal tranches on November 5, 2021, 2022 and 2023 and will expire on November 5, 2024.

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

The Company has a policy of reserving up to 10% of the outstanding common shares for issuance to eligible participants. As at December 31, 2020, there were 2,727,902 (2019: 2,665,432) common shares reserved for this purpose.

A summary of the Company's outstanding stock options as at December 31, 2020 and 2019 and changes during these years is presented below.

	2020		2019	
	Number of options	**Weighted average exercise price $**	**Number of options**	**Weighted average exercise price $**
Outstanding, January 1	1,074,107	1.70	1,065,845	1.86
Options granted	926,540	0.57	421,275	1.51
Options expired	(627,314)	1.72	(413,013)	1.92
Outstanding December 31	**1,373,333**	**0.93**	**1,074,107**	**1.70**
Unvested options	1,059,518	0.78	612,217	1.52
Outstanding and exercisable, December 31	**313,815**	**1.44**	**461,890**	**1.94**

The exercise prices for options outstanding at December 31, 2020 were as follows:

	All options		Exercisable options	
Exercise price:	**Number**	**Weighted average remaining contractual life (years)**	**Number**	**Weighted average remaining contractual life (years)**
$0.49	160,000	2.6	40,000	2.6
$0.52	11,240	3.8	-	-
$0.59	697,130	3.5	-	-
$1.50	244,351	2.4	87,451	2.4
$1.55	240,612	1.3	166,364	1.3
$2.10	20,000	1.0	20,000	1.0
Total	**1,373,333**	**2.8**	**313,815**	**1.8**

The weighted average fair value of the options granted during the year that were valued using the Black-Scholes option pricing model was $0.30 (2019: $0.45). The fair value of the options granted and valued using the Black-Scholes option pricing model were valued with the following weighted average assumptions:

	2020	**2019**
Risk-free interest rate	0.28%	1.39%
Expected life (years)	2.06	2.05
Volatility in the price of the Company's common shares	112%	53%
Dividend yield rate	0.00%	0.00%

Warrants	**Number of warrants**	**Weighted average exercise price $**	**Value $**
Outstanding January 1, 2019	769,200	1.45	50,712
Warrants issued (note 14)	2,667,610	1.75	1,115,506
Agent warrants issued	370,468	1.25	242,063
Warrants issue costs	-	-	(160,970)
Outstanding December 31, 2019	**3,807,278**	**1.64**	**1,247,311**
Warrants exercised	(624,696)	0.60	(104,398)
Warrant modification	-	1.45	76,912
Warrants expired	(146,345)	0.60	(24,429)
Outstanding December 31, 2020	**3,036,237**	**1.69**	**1,195,396**

17. Loss per share

Basic loss per share

The calculation of basic and diluted loss per share for the year ended December 31, 2020 was based on a weighted average number of common shares outstanding of 26,677,439 (basic and diluted) (2019: 21,861,196 basic and diluted). The calculation of diluted earnings per share did not include outstanding stock options, warrants, nor convertible debentures for these years because they would be anti-dilutive.

18. Disaggregation of revenue

The Company has one operating segment. The following revenue is based on the geographical location of customers. All non-current assets reside in Canada, with the exception of property and equipment with a carrying amount of $73,860, a leased building with a carrying amount of $384,891, and non-current inventory with a carrying amount of $615,100 located at FLYHT's offices in Littleton, CO.

	For the year ended December 31	
	2020	**2019**
	$	**$**
United States & Mexico	6,627,963	7,907,107
Asia	1,511,399	4,126,531
China	1,625,612	3,360,888
Middle East	903,656	1,999,975
Canada	1,539,009	1,612,114
Australasia	415,011	764,484
Africa	545,828	599,777
Europe	334,684	480,629
South/Central America	149,823	319,654
Total	**13,652,985**	**21,171,159**

The following shows revenue per major product and service categories.

	For the year ended December 31	
	2020	**2019**
	$	**$**
SaaS	7,323,125	10,246,685
Hardware	2,306,371	6,651,673
Licensing	3,630,874	3,241,285
Technical Services	392,615	1,031,516
Total	**13,652,985**	**21,171,159**

SaaS is the recurring revenue from the Company's products that allow customers to utilize and analyze data they receive from units, use of functions such as the satellite phone and the sale of weather data collected by units. These usage fees are recognized as the service is provided based on actual customer usage each month. **Hardware** includes the income from hardware sales and related parts required to install the unit, spare units, spare installation parts, and Underfloor Stowage Units. **Licensing** includes sales of modems with a related manufacturing license fee and arrangements for exclusive access to weather data sets. **Technical Services** includes services offered by the Company, including repairs and other expertise. The Company has not disclosed the transaction price allocated to remaining performance obligations for SaaS and Technical services, as revenue for these performance obligations is recognized using the practical expedient to recognize revenue at the amount to which the Company has a right to invoice. The undelivered amount of revenue related to contracted yet undelivered hardware and licenses for which a purchase order has been received is $2,101,719 CAD.

Major customers

Revenues from the three largest customers represent approximately 44% of the Company's total revenues for the year ended December 31, 2020 (2019: 46%).

19. Other Income

	For the year ended December 31	
	2020	**2019**
	$	**$**
Subsidy recovery	806,913	4,126,573
Total	**806,913**	**4,126,573**

In 2018 FLYHT acquired the assets of PWS from Panasonic Avionics Corporation. Pursuant to a transition agreement between the parties, FLYHT received subsidies to offset the anticipated impact over the first 18 months following the asset acquisition (note 12).

20. Distribution expenses

	For the year ended December 31	
	2020	2019
	$	$
Salaries and benefits	4,460,350	5,889,166
Stock based compensation	27,208	38,346
Contract labour	765,169	637,992
Office	185,768	223,896
Travel	142,160	566,700
Equipment & maintenance	42,226	59,132
Depreciation	558,960	527,994
Marketing	92,734	116,703
Other government grants	(1,266,767)	-
Other	384,056	235,840
Total	**5,391,864**	**8,295,769**

Other government grants relate to amounts received from the Canadian government under the Canadian Emergency Wage Subsidy (“CEWS”), the Canadian Emergency Rent Subsidy (“CERS”) and the Scientific Research and Experimental Development (“SRED”) tax refund programs of $1,307,338 CAD, $29,872 CAD and $141,372 CAD respectively, and to a US government loan forgivable under the US Paycheck Protection Program for an amount of $585,235 USD. These government grants are included in Distribution, Administration and Research, development and certification engineering.

21. Administration expenses

	For the year ended December 31	
	2020	2019
	$	$
Salaries and benefits	2,342,232	2,004,409
Stock based compensation	120,924	101,328
Contract labour	470,549	399,400
Office	492,879	475,049
Legal fees	78,889	39,700
Audit and accounting	193,807	293,823
Investor relations	170,510	210,772
Travel	71,227	225,769
Equipment and maintenance	316,333	213,973
Depreciation	163,580	181,564
Other government grants (note 20)	(384,286)	-
Other	19,992	68,132
Total	**4,056,636**	**4,213,919**

22. Research, development and certification engineering expenses

	For the year ended December 31	
	2020	2019
	$	$
Salaries and benefits	3,341,024	3,203,141
Stock based compensation	11,754	13,889
Contract labour	433,854	255,994
Office	79,493	144,770
Travel	16,232	103,357
Equipment and maintenance	21,781	13,297
Components	30,315	16,904
Depreciation	145,778	131,860
Grant WINN loan (note 13)	(119,047)	(114,605)
Other government grants (note 20)	(623,248)	-
Other	306	907
Total	**3,338,242**	**3,769,514**

23. Finance income and finance costs

	For the year ended December 31 2020 $	2019 $
Interest income on bank deposits	45,008	29,810
Gain on modification of government loans	419,682	-
Finance income	**464,690**	**29,810**
Bank service charges	29,529	29,942
Net foreign exchange loss	139,548	172,495
Interest on lease liability	134,246	91,977
Other interest expense	140	3,073
Government grant interest accretion	420,422	396,351
Debenture interest expense and accretion	254,571	256,780
Finance costs	**978,456**	**950,618**

24. Income tax expense

Current Tax Expense

	2020 $	2019 $
Current income tax (recovery) expense	961	-
Deferred income tax (recovery) expense	-	-
	961	**-**

Deferred Tax Expense

Unrecognized deferred tax assets

Deferred tax assets have not been recognized in respect of the following deductible temporary differences:	2020 $	2019 $
Capital assets and intangibles	1,374,147	1,290,889
Reserves and FX	381,362	1,463,184
Non-capital loss carry-forwards	39,648,247	37,009,398
Share issue costs	480,830	69,018
Scientific research and experimental development expenditures	24,279,134	34,424,226
Total	**66,163,720**	**74,256,715**

The Company has non-capital losses for income tax purposes of approximately $39,648,247 which are available to be applied against future year's taxable income. The benefit of these non-capital losses has not been recognized in the consolidated financial statements because it is not probable that future taxable profit will be available against which FLYHT can use the benefits. Of these losses, $792,832 were incurred in the US and do not expire. The remaining losses were incurred in Canada and will expire as follows:

Year	**Amount** $
2027	4,641,378
2028	6,997,140
2029	2,791,748
2030	6,596,636
2031	4,351,802
2032	2,313,225
2033	1,464,723
2034	1,890,509
2035	1,697,631
2037	1,725,517
2038	1,924,860
2040	2,460,246
Total	**38,855,415**

Reconciliation of effective tax rate	**2020**	**2019**
	$	**$**
Income (loss) before tax	(3,236,496)	(746,640)
Tax Rate	24%	26.5%
Expected income tax recovery	(776,759)	(197,860)
Change in rate	(109,876)	2,127,613
Non-deductible (taxable) amounts	(183,478)	16,649
Stock based compensation	38,372	40,694
Change in unrecognized temporary differences	1,032,702	(1,987,096)
	961	**-**

The Alberta corporate tax rate decrease was accelerated to 8% effective July 1, 2020.

25. Financial risk management

The Company's operating activities expose it to a variety of financial risks, including credit, liquidity and market risks associated with the Company's financial assets and liabilities. FLYHT has established procedures and policies to minimize its exposure to these risks, and continually monitors its exposure to all significant risks to assess the impact on its operating activities. The following details the Company's exposure to credit, liquidity, currency, and other market risks.

Credit risk

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Management considers the demographics of the Company's customer base, including the default risk of the industry and country in which customers operate. Approximately 30% (2019: 18%) of the Company's 2020 revenue is attributable to transactions with a single customer; however, geographically there is no concentration of credit risk.

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

The aging of receivables at the reporting date was:

December 31, 2020	**0-30 days**	**31-60 days**	**61-90 days**	**91+ days**	**Total**
	$	**$**	**$**	**$**	**$**
Accounts receivable	1,039,501	213,945	169,724	1,167,679	2,590,849
Impairment	(98,421)	(58,761)	(51,364)	(795,028)	(1,003,574)
Net receivable	**941,080**	**155,184**	**118,360**	**372,651**	**1,587,275**

December 31, 2019	**0-30 days**	**31-60 days**	**61-90 days**	**91+ days**	**Total**
	$	**$**	**$**	**$**	**$**
Accounts receivable	2,639,467	1,151,138	694,187	950,494	5,435,286
Impairment	(86,496)	(97,710)	(65,140)	(295,534)	(544,880)
Net receivable	**2,552,971**	**1,053,428**	**629,047**	**654,960**	**4,890,406**

The Company believes that the unimpaired amounts that are past due by more than 30 days are still collectible, based on historic payment behavior.

The movement in the allowance for impairment in respect of trade and other receivables for the years ended December 31, 2020 and 2019 was:

	2020 $	2019 $
Balance, January 1	544,880	296,143
Provision	512,496	307,592
Recovered	(43,311)	(58,472)
Amounts written off	(10,491)	(383)
Balance, December 31	**1,003,574**	**544,880**

Liquidity risk

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

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

December 31, 2020	< 2 months $	2-12 months $	1-2 years $	2-5 years $	> 5 years $	Total $
Accounts payable	1,120,306	-	-	-	-	1,120,306
Compensation and statutory deductions	491,401	429,293	-	-	-	920,694
Accrued liabilities	87,941	-	-	-	-	87,941
Lease payments	199,546	480,269	370,591	820,825	1,511,590	3,382,821
Loans and borrowings	235,820	2,334,476	1,201,697	2,119,770	1,585,051	7,476,814
Total	**2,135,014**	**3,244,038**	**1,572,288**	**2,940,595**	**3,096,641**	**12,988,576**

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

Currency risk

A significant portion of the Company's revenues and a portion of its expenses are denominated in U.S. dollars. Management estimates that a 1% weakening of the Canadian dollar relative to the U.S. dollar would increase net earnings by approximately $135,861 (2019: $211,135) and a strengthening of the Canadian dollar would decrease net earnings by approximately $135,861 (2019: $211,135).

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

The Company has exposure to foreign exchange risk for working capital items denominated in U.S. dollars. At December 31, 2020, working capital denominated in U.S. dollars was approximately positive $1,891,678 (2019: positive $3,587,151). As a result, a 1% weakening of the Canadian dollar would increase net earnings by approximately $18,917 (2019: $35,872) and a strengthening of the Canadian dollar would decrease net earnings by approximately $18,917 (2019: $35,872).

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

Although there are limited expenses under contracts denominated in EUR and GBP, fluctuations in these currencies would result in insignificant foreign exchange variances. In respect of other monetary assets and liabilities denominated in foreign currencies, the Company ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

Interest rate risk

Borrowings issued at variable rates result in exposure to interest rate risk, which would affect future cash flows if interest rates were to rise. Fluctuations in the prime interest rate could result in exposure for the Company with regards to the bank credit facility, which bears interest at Canadian chartered bank prime plus 1.5%. The Company's exposure to interest rate risk as at December 31, 2020 and 2019 was minimal as the credit facility had not been drawn.

Market risk

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

Fair values versus carrying amounts

As the WINN and SADI contributions are repayable loans at below market rates, the carrying amounts have been determined by employing a discount rate based on debt market conditions as well as factors specific to the Company's operations and financial position (note 14). The fair values of financial assets and all other liabilities approximate carrying values due to the short-term nature of the instruments.

Capital management

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

26. Related parties

A company related to an officer of FLYHT provided marketing services in Q4 2020. All of the transactions with the related party were at terms equivalent to those that prevail in arm's length transactions and were supported by a third party receipt.

	For the year ended December 31	
	2020	**2019**
Amounts included in:	**$**	**$**
Contract labour	22,575	-
Accounts payable	10,895	-

Transactions with key management personnel

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

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

Compensation for this group comprised:

	2020	**2019**
	$	**$**
Salary	1,219,967	1,150,794
Director fees	202,588	220,277
Variable compensation	54,250	287,467
Retiring allowance	451,390	41,079
Share-based payments	88,940	83,857
Short-term employee benefits	84,968	74,946
Total	**2,102,103**	**1,858,420**

Subsidiaries

	Country of Incorporation	**Ownership interest**
FLYHT Inc.	United States	100%
AeroMechanical Services USA Inc.	United States	100%
FLYHT Corp.	Canada	100%
FLYHT India Corp.	Canada	100%

27. Contractual Arrangement

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

28. Subsequent Event

A further amendment was made on March 25, 2021 to the Company's contribution agreement with Western Economic Diversification Canada under the WINN loan agreement originally signed in November 2018. Amended terms extend the timeframe for eligible project cost submission from September 30, 2021 to September 30, 2023 and adjust the repayment start date from October 1, 2021 to October 1, 2023.

29. Contingent liability

As announced on June 30, 2020, the Company received a statement of claim from Thomas R. Schmutz (former Chief Executive Officer of FLYHT) in the amount of $525,000 CAD in relation to the termination of his employment with the Company. The financial results include a provision based on management's best estimate of the expected costs to settle the matter, which is less than the amount of the statement of claim.

CORPORATE INFORMATION

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Jack Olcott	President, General Aero Company
Mary McMillan	Director
Mike Brown	Partner, Nanaimo Law
Nina Jonsson	Director
Paul Takalo	Director

Officers

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Alana Forbes	Chief Financial Officer
Darrel Deane	Vice President Solutions
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