

FLYHT AEROSPACE SOLUTIONS LTD.

THIRD QUARTER
**MANAGEMENT
DISCUSSION
AND ANALYSIS**

2016



LETTER TO SHAREHOLDERS

The third quarter (Q3) was yet another record revenue quarter for FLYHT and was the second positive income quarter in a row for FLYHT – the first successive profitable quarters in the Company's history! The news releases issued by FLYHT during and after the quarter were dominated by new business in the People's Republic of China (China), an enormously strategic market developed by FLYHT. The Company also continues to receive orders for our product from a strategic original equipment manufacturer (OEM), resulting in additional growth in our Parts revenue. FLYHT achieved further aircraft certifications in Q3, adding to our impressive collection of supplemental type certificates (STC) – an incredibly valuable company asset which creates a barrier to entry for potential competition. Finally, as we report in all quarters, FLYHT continued to make progress on the “2016 FLYHT Plan” which are our annual goals.

FLYHT posted Q3 2016 revenue of \$4.1 million, an increase of 64% over Q3 2015. This is now our largest “traditional” revenue quarter, exceeding the previous record of \$3.8 million from Q4 2015. This followed a Q2 2016 with “traditional” revenue of \$3.5 million, an increase of 121% from Q2 2015. The second and third quarters of 2016 represent back to back profitable quarters – the first instance since FLYHT's public listing in 2003. FLYHT also has positive income for the year through September, demonstrating a \$1.6-million-dollar profit on the year. We are holding expenses through our “Achieve Excellence” strategic programs and the growing top line is producing positive results. The areas of growth remain the same, as we discussed at the annual shareholder's meeting – China operations and shipments to our strategic OEM for installation on the Airbus A320 and A330 – for both new build and retrofit opportunities.

FLYHT released information about our sales activity in China during and immediately following the period. We launched data services in China with our first customer there who is serving as a reference customer for other operators; demonstrating the utility of our Automated Flight Information Reporting System (AFIRS™) satellite communications equipment and UpTime™ software solutions. The aggregate data service is initially valued at USD \$1.05 million (five-year service window) and can grow if this customer adds aircraft. In early October, we announced the contracting of AFIRS kits, for USD \$4.26 million (when all units are shipped), to a company that implements data solutions for Chinese commercial aviation operators. This information technology company is interested in integrating the real-time data offered by our UpTime product into their information solutions, so we anticipate there may be an excellent opportunity for FLYHT to sell recurring services once the AFIRS equipment is installed in commercial aircraft. At the time of this release, FLYHT has signed 19 Chinese operators and, in 2016, has signed seven new contracts for hardware and one contract for data services. FLYHT has a fantastic team working this region. I personally visited China again in October and we will continue to focus our energy there to capitalize on opportunities.

FLYHT added \$1.6 million in Parts revenue during Q3 2016 which brings this revenue source to \$3.7 million through September, already \$0.9 million higher than all of 2015 (\$2.9) and about \$0.5 million higher than we expected at this point in the year! The bulk of this revenue comes from license fees on AFIRS product for installation on Airbus A320 and A330 line-fit and retrofit through our OEM relationship. The nature of this agreement makes the cost of goods sold in this channel very low, so margin on this revenue source is very high. This revenue stream is very important for FLYHT and our relationship with the OEM remains excellent.

FLYHT received new STCs in the third quarter for the AFIRS 228. The approved aircraft types approved by the Federal Aviation Administration (FAA) include the ATR 42-300 and the ATR 72-100/200 aircraft.

Going into the fourth quarter of the year, we are also making progress on our “2016 FLYHT Plan.” I previously mentioned that we have deployed instances of our cloud-based UpTime™ server which will become our standard customer interface as we move forward. We have fully implemented several of the high-level strategies in our “Achieve Excellence” program. We are in negotiations to launch a China-based depot repair facility. We are engaged in interviews for the 24x7 call center. Finally, we are pursuing new OEM relationships. We review our goals regularly and are very focused on their successful completion.

I am quite proud of the progress we are making as a Company. The team has really bought into our “Achieve Excellence” program and I feel it is guiding us toward profitability and creating shareholder value in FLYHT.

Thank you for your continued support.
Best Regards,



Thomas R. Schmutz, Chief Executive Officer

MANAGEMENT DISCUSSION & ANALYSIS

This management discussion and analysis (“MD&A”) is as of November 8, 2016 and should be read in conjunction with the condensed consolidated interim financial statements of FLYHT Aerospace Solutions Ltd. (“FLYHT” or the “Company”) as at and for the three and nine months ended September 30, 2016 and 2015 and the accompanying notes. Additional information with respect to FLYHT can be found on SEDAR at www.sedar.com. The Company has prepared its September 30, 2016 condensed consolidated interim financial statements and the notes thereto in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”). The Company’s accounting policies are provided in note 3 to the condensed consolidated interim financial statements.

Non-GAAP Financial Measures

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

Forward-Looking Statements

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

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

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

FLYHT Overview

FLYHT is a leading provider of real-time aircraft intelligence and cockpit communications for the aerospace industry. More than 50 customers, including airlines, leasing companies and original equipment manufacturers, have installed our systems in order to increase safety, improve operational efficiencies and enhance profitability. FLYHT’s tools deliver data and voice communication between the aircraft and operations groups on the ground, on demand. The Company’s products are available for commercial, business and military aircraft. FLYHT’s proprietary technology, the Automated Flight Information Reporting System (AFIRS™), operates on multiple aircraft types and provides functions such as safety services voice and text messaging, data collection and transmission, and on-demand streaming of flight data recorder (black box), engine and airframe data. AFIRS has flown over 2.3

million aggregate flight hours and 1.5 million flights on customers' aircraft. FLYHT holds supplemental type certificates (STC) which allow for the installation of AFIRS on 95% of transport category aircraft.

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

AFIRS™ and UpTime™

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

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

FLYHTStream

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

FLYHTFuel

FLYHTFuel is a tool that eliminates uncertainty about the effectiveness of an airline's operational fuel savings initiatives. Based on eight industry recognized fuel savings initiatives that include: single engine taxi out, reduced flap takeoffs, reduced acceleration altitude, low drag approaches, reduced flap landings, idle reverse, single engine taxi in and APU monitoring, FLYHTFuel uses real-time flight data acquired from the aircraft's onboard systems, and presents the data to operations/maintenance personnel in an easy to read dashboard. The dashboard compares how the aircraft was flown to how it could be flown in order to maximize efficiency and fuel savings. Where compliance has not been met, costs of those variations are shown. FLYHTFuel is an excellent supplement to any fuel management program and is an effective tool for helping flight crew and maintenance personnel alike to understand and appreciate the importance of operational efficiency.

FLYHTLog

FLYHT offers enhanced global flight tracking capabilities that meet and exceed ICAO's Global Aeronautical Distress and Safety System definitions for both normal and abnormal tracking. Specific features include built in visual and audible alerts along with email/text notifications, access to historical data, as well as fully configurable automated, manual and autonomous distress tracking capabilities down to a minimum resolution of 20 seconds. With FLYHT's technology, our customers are able to remotely configure their software directly from their custom ground user interface. Additionally, AFIRS is unsurpassed when it comes to automating the collection and dissemination of block and flight times. Accurate OOOI times translate directly into optimal crew utilization ensuring flight crews don't time-out ahead of schedule. Accurate hour and cycle information also extends the time between maintenance intervals, maximizing utilization of life-limited parts. Precise OOOI times lead to financial savings for operators on a power-by-the-hour contract, or lease contracts with a utilization component.

FLYHTASD

FLYHTASD is a fully integrated and interactive enhanced global flight tracking solution that makes tracking the progress and monitoring the status of your aircraft seamless. Customers enjoy all the benefits the FLYHTLog product has to offer, plus gain access to a worldwide airport database for operational planning purposes. FLYHTASD also comes complete with a fully integrated text messaging interface that allows operators to send and receive text messages to and from multiple aircraft at any one time.

FLYHTHealth

Consists of automated engine and airframe trend monitoring and real-time exceedances and diagnostics. Automated trend reports with configurable reporting intervals notify the airline when a maintenance event has occurred. Leveraging the global coverage of the Iridium Satellite Network, FLYHTHealth allows the airline to request data directly from the engine once a problem has been detected. The airline can then use FLYHT's real-time systems diagnostics capabilities to interrogate systems

information, identify the source of the problem and prepare the arrival station for repair, long before the aircraft lands at its destination. By automating and enhancing the real-time and long-term monitoring of airplane data, FLYHTHealth enables proactive management of maintenance and reduces downtime and the financial impact of unscheduled maintenance.

FLYHTMail

Two-way text messaging to the flight deck is established through the multi-control display unit (“MCDU”) or an iPad application. From departure to arrival, FLYHTMail ensures the customer is capable of communicating in a timely and effective manner.

FLYHTVoice

FLYHTVoice provides a rapid, dependable, private communication channel for the flight deck using the Iridium satellite network. FLYHTVoice is especially useful for managing irregular operations such as weather diversions, mechanical breakdowns and any other unforeseen situations as well as when operating in remote regions with little to no VHF/HF coverage.

As part of an evaluation of its products and services and in order to focus attention where it is needed most, FLYHT is discontinuing the sale of the Dragon™. This decision will not impact FLYHT’s current Dragon customers.

Underfloor Stowage Unit

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

System Approvals

FLYHT is a Transport Canada Civil Aviation (TCCA) Approved Manufacturer, Approved Maintenance Organization and an EASA Part 145 Repair Facility. FLYHT is part of a select group of Canadian companies who are approved by TCCA as a Design Approval Organization (DAO). The Company also holds multiple Supplemental Type Certificates (STCs, issued by an aviation regulator) to make appropriate modifications, such as installing FLYHT’s AFIRS technology, to an aircraft’s approved design.

FLYHT has received STC approvals from Transport Canada Civil Aviation (TCCA), the United States Federal Aviation Administration (FAA), the European Aviation Safety Agency (EASA), the General Administration of Civil Aviation of China (CAAC), the National Civil Aviation Agency (ANAC) in Brazil and the Direccion General de Aeronautica Civil (DGDC) in Mexico for various aircraft models depending on customer requirements.

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

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

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

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

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

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

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

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

AFIRS 220 or 228 model.

FLYHT has also received an approved AFIRS 228 STC for the Bombardier CRJ- 700, 900 from the Direccion General de Aeronautica Civil (DGDC) in Mexico.

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

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

This TSO certification confirms that AFIRS 228S meets all product requirements, including DO-262B Minimum Operational Performance Standards for Avionics Supporting Next Generation Satellite Systems (NGSS), for an Iridium SATCOM supporting Future Air Navigation System ("FANS") -1/A capability. FANS allows for and supports improved data and surveillance of aircraft flying in remote regions and over the oceans. Additionally, the certification enables voice and data services for Air Traffic Control ("ATC"), Aeronautical Operational Control ("AOC") and Air-to-Air Communication ("AAC") using Iridium's global satellite network. The system also provides ACARS over Iridium messaging capability.

Trends and Economic Factors

FLYHT examines the results of growth and measurements made by leading aviation groups in order to determine the health of the industry. AFIRS is a technology that can be installed on commercial, business or military aircraft.

Passenger traffic (measured in Revenue Passenger Kilometers or “RPK”) saw a 5.9% increase in the first nine months of 2016¹. Internationally, all regions have seen demand growth in the first three quarters of the year at 6.3%, which is slightly higher than domestic travel at 5.4%. IATA remarked that while the performance in the industry is strong for the year, profitability continues to be hard-won. Global freight traffic (measured in Freight Tonne Kilometers or “FTK”) increased 2.0% in the first nine months of 2016², with 6.1% growth in September that marks the fastest growth since February 2015. RPK and FTK measure passenger and freight contributions to airline revenue. These are significant measures to determine the health of the industry because the larger the increase, the more people are flying and shipping freight, suggesting growth in the industry.

There was no common trend amongst the large commercial aircraft manufacturers’ delivery volumes in the third quarter of 2016 and first nine months of 2015. Airbus saw an increase and has delivered 462 aircraft in the first nine months of 2016 compared to 446 in 2015.³ Boeing saw a slight three percent decrease in deliveries with 563 aircraft delivered in the first nine months of 2016 compared to 580 in 2015.⁴ Embraer continued to see growth in the third quarter, with an increase in deliveries at 29 commercial aircraft compared to 21 in the third quarter of 2015, although they saw a decrease in executive jets with 25 deliveries compared to 30 in Q3 2015.⁵ Bombardier’s Q3 results have not yet been released.

FLYHT continues to be an industry leader in providing airlines with increased operational control and aircraft situational awareness. The Company’s efforts year to date have been on the early stage redevelopment and implementation of a cloud-based UpTime user software. This early development, targeted to be complete in 2016, marks an improvement on our current technology; taking into consideration customer feedback and optimization. The FLYHTHealth program is significant in its ability to detect and notify the airline of any problems while the aircraft is in flight and prepare for repair before the aircraft lands, thereby reducing the financial impact of unscheduled maintenance. Since 2009, FLYHT has had the technology to stream black box data in real-time. As a result of industry events and accidents during 2014, FLYHT has participated in working groups and demonstrated the AFIRS technology and FLYHTStream capabilities on industry panels. Multiple working groups included sessions with the Malaysian Government, ICAO, IATA, the NTSB and ITU. FLYHT will continue to participate in industry working groups to advance engineering and technical requirements and prepare for future development of the AFIRS product line to meet industry needs. In early 2016 ICAO announced aircraft tracking Standards and Recommended Practices (“SARPs”). Applicable on November 8, 2018, amendment 39 includes SARPs which make an air operator responsible for tracking its aircraft throughout its area of operations with an aircraft tracking time interval of 15 minutes. Amendment 40 includes SARPs applicable on January 1, 2021 related to the location of an airplane in distress and establishes a requirement for an airplane to autonomously transmit information from which position can be determined at least every one minute while in distress. These SARPs are non-prescriptive meaning they may be implemented with any chosen technology.

The stabilized Canadian dollar relative to the U.S. dollar throughout Q3 2016 had a small positive impact on the Company’s revenue and income compared to Q3 2015, which partially offset the losses due to the strengthening of the Canadian dollar YTD in 2016. As a result of these currency movements, the Company’s revenues, which are substantially all denominated in U.S. dollars, were higher in the quarter but lower YTD than they would have been had the foreign exchange rates not changed. It is the standard of the aviation industry to conduct business in U.S. dollars. While the majority of the Company’s operating and overhead costs are denominated in Canadian dollars, a significant portion of the cost of sales, marketing and distribution costs are U.S. dollar denominated, and therefore a natural hedge exists against fluctuations of the Canadian dollar.

¹ <http://www.iata.org/pressroom/pr/Documents/passenger-analysis-sep-2016.pdf>

² <http://www.iata.org/pressroom/pr/Pages/2016-11-03-01.aspx>

³ <http://www.airbus.com/company/market/orders-deliveries/>

⁴ <http://boeing.mediaroom.com/2016-10-26-Boeing-Reports-Third-Quarter-Results-and-Raises-Full-Year-Guidance>

⁵ http://www.embraer.com/Documents/noticias/Release%20US%203Q16_FINAL.pdf

Contracts and Achievements of Q3 2016

Contracts

FLYHT signed three new contracts in the third quarter of 2016.

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

FLYHT also achieved the following contracts in the quarter:

- Received parts orders from an existing OEM partner ([see release on July 15, 2014](#)) for approximately USD \$1.0 million of parts with related license fees.
- Signed one new sales agreement for AFIRS 228 hardware equipment of approximately USD \$227,000 in the People's Republic of China.
- Signed an order for voice and data services for an operator in Africa which will total USD \$156,000 assuming FLYHT provides services over the full term of the five (5) year agreement.

Subsequent to the end of the third quarter, FLYHT entered into an agreement with an Information Technology (IT) Company that implements data solutions for Chinese commercial aviation operators for the sale of the AFIRS 228S with the initial hardware valued at approximately USD \$4.26 million.

Achievements

In July, FLYHT announced record setting second quarter results. Traditional Q2 revenue was \$3.54 million, an increase of 121% from Q2 2015.

FLYHT received new supplemental type certificates ("STCs") in the third quarter for the AFIRS 228. The approved aircraft types by the FAA include the ATR 42-300 and the ATR 72-100/200 aircraft.

Results of Operations – Three and Nine Months Ended September 30, 2016 and 2015

Selected Results

	Q3 2016 \$	Q2 2016 \$	Q1 2016 \$	Q4 2015 \$
Assets	9,189,104	9,655,504	5,803,079	5,478,867
Non-current financial liabilities	996,121	1,002,872	602,011	390,110
Revenue	4,054,368	3,537,665	2,611,331	3,769,267
Cost of sales	1,346,341	1,278,746	861,965	1,340,513
Distribution expenses	1,109,289	1,248,783	1,132,727	1,084,443
Administration expenses	618,763	1,103,399	638,427	1,573,796
Research, development and certification engineering expenses	550,444	336,871	988,176	689,195
Income (loss) from operating activities	429,531	2,793,032	(1,009,964)	(918,680)
Income (loss)	303,888	2,572,061	(1,242,942)	(1,203,998)
Income (loss) before R&D	808,504	2,908,932	(254,766)	(514,803)
Income (loss) per share (basic & fully diluted)	0.00	0.01	(0.01)	(0.01)
	Q3 2015 \$	Q2 2015 \$	Q1 2015 \$	Q4 2014 \$
Assets	6,140,675	6,344,752	7,752,509	8,275,546
Non-current financial liabilities	3,267,030	3,053,577	5,407,303	5,506,179
Revenue	2,519,347	1,598,603	2,569,908	2,218,681
Cost of sales	683,224	562,535	637,901	849,221
Distribution expenses	1,142,086	987,330	763,774	990,650
Administration expenses	607,755	943,931	551,471	780,039
Research, development and certification engineering expenses	638,104	737,968	737,285	772,725
Income (loss) from operating activities	(540,939)	(1,633,161)	(120,523)	(1,173,954)
Income (loss)	(683,224)	(1,943,924)	(60,414)	(1,305,712)
Income (loss) before R&D	45,120	(1,205,956)	676,871	(532,986)
Income (loss) per share (basic & fully diluted)	(0.00)	(0.01)	(0.00)	(0.01)

Financial Position

Liquidity and Capital Resource

The Company's cash at September 30, 2016 increased to \$3,815,053 from \$1,301,955 at December 31, 2015. The Company has an available and undrawn operating line of \$250,000 at Canadian chartered bank prime plus 1.5%, secured by assignment of cash collateral and a general security agreement.

At September 30, 2016, the Company had positive working capital of \$1,623,640 compared to negative \$5,413,927 as of December 31, 2015, an increase of \$7,037,567. Neither customer deposits, nor the current portion of unearned revenue are refundable, and if those two items are excluded in the working capital calculation, the resulting modified working capital at September 30, 2016 would be positive \$2,879,375 compared to negative \$3,306,055 at December 31, 2015.

On May 12, 2016, the Company closed a private placement, issuing 33,910,081 units at a price of \$0.15 per unit, for total proceeds of \$5,086,513. Each unit consisted of one common share and one-half of one share purchase warrant. Each warrant entitled the holder to purchase one additional common share of the Company for a period of 24 months from the issuance of the units at a price of \$0.25. Finder's fees totaled \$317,275. A total of 2,115,167 finder's options were also issued, exercisable into one unit at \$0.15 per unit within 24 months from the closing date. A portion of the net proceeds were used to repay the debentures that were

due in June 2016. All of the common shares and warrants issued pursuant to the private placement are subject to a 4-month hold period.

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

The Company funded Q3 2016 operations primarily through the private placement that closed on May 12, 2016 and the receipt of the funds resulting from the sale of a non-exclusive license to use certain intellectual property, together with cash received from sales. Management is addressing the convertible debenture due in December 2016 and the Company will continue to strive to self-fund operations through 2016.

	September 30, 2016 \$	December 31, 2015 \$	Variance \$
Cash and cash equivalents	3,815,053	1,301,955	2,513,098
Restricted cash	250,000	250,000	-
Trade and other receivables	1,498,011	898,166	599,845
Deposits and prepaid expenses	458,540	137,861	320,679
Inventory	1,602,441	1,716,313	(113,872)
Trade payables and accrued liabilities	(1,991,685)	(2,757,707)	766,022
Unearned revenue	(747,511)	(1,087,197)	339,686
Loans and borrowings	(3,234,693)	(5,840,418)	2,605,725
Finance lease obligations	(19,660)	(27,922)	8,262
Current tax liabilities	(6,856)	(4,978)	(1,878)
Working capital	1,623,640	(5,413,927)	7,037,567
Unearned revenue	747,511	1,087,197	(339,686)
Customer deposits	508,224	1,020,675	(512,451)
Modified working capital	2,879,375	(3,306,055)	6,185,430

As at November 8, 2016, FLYHT's common shares outstanding was 207,393,766.

Consistent achievement of positive earnings before interest and amortization will be necessary for the Company to maintain liquidity. The Company has continued to expand its cash flow potential through its continued marketing drive to clients around the world. Management believes that the Company's installation momentum, conversion of installations to recurring revenue, new revenue streams, and ongoing sales, together with the proceeds received from the private placement in Q2 and the sale of the one-time non-exclusive license to use certain intellectual property will be sufficient to meet standard liquidity requirements over the next twelve months.

Given a large portion of the funds raised in Q2 2016 originated from a one-time sale of intellectual property, for the Company to continue as a going concern longer-term it will need to attain profitability and/or obtain additional financing to fund ongoing operations. If:

- general economic conditions in the industry or the financial condition of a major customer deteriorates, or
- debenture holders do not convert their debenture units to equity, when the debentures mature in December 2016;

the Company may have to scale back operations to create positive cash flow from existing revenue and/or raise the necessary financing in the capital markets. It is the Company's intention to continue to fund operations by adding revenue and its resulting cash flow as well as continue to manage outgoing cash flows. If the need arises due to market opportunities, the Company may meet those needs via the capital markets. These material uncertainties may cast significant doubt upon the Company's ability to continue as a going concern.

Financial Instruments

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

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

There is a credit risk associated with accounts receivable where the customer fails to pay invoices. The Company extends credit to credit-worthy or well-established customers. In the case of AFIRS sales the invoiced amount is frequently paid before the product is shipped to the customer. The Company assesses the financial risk of a customer and based on that analysis may require that a deposit payment be made before services are provided or may place credit insurance on the receivable amount. In the case of monthly voice and data services the Company has the ability to disable the AFIRS unit transmissions where the customer has not fulfilled its financial obligations.

Contractual Obligations

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

September 30, 2016	< 2 months \$	2-12 months \$	1-2 years \$	2-5 years \$	> 5 years \$	Total \$
Accounts payable	788,569	-	-	-	-	788,569
Compensation and statutory deductions	89,102	302,732	108,000	58,500	-	558,334
Finance lease liabilities	4,970	18,281	-	-	-	23,251
Accrued liabilities	25,536	71,192	11,658	28,174	-	136,560
Loans and borrowings	-	3,385,888	119,333	476,546	1,030,935	5,012,702
Total	908,177	3,778,093	238,991	563,220	1,030,935	6,519,416

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

The debenture issued December 23, 2010 had an original face value of \$3,159,000 and was set to mature on December 23, 2014. On December 22, 2014 approval was received to extend the maturity date of the debentures then remaining outstanding from four to six years, now maturing on December 23, 2016. The debenture continues to bear interest at a rate of 8% per annum, accrued and paid annually in arrears. The debentures were convertible into common shares at a conversion rate of \$0.40 per share at any time up to December 23, 2015; on December 15, 2015 the conversion rate was amended to be \$0.25 per share at any time up to December 23, 2016. The debentures carry a face value after conversions of \$3,039,000 at November 8, 2016, unchanged from December 31, 2015.

FLYHT did not enter into any new loan or lease agreements to date in 2016. Minimum lease payments are as follows.

Year	Total \$
2016	7,455
2017	15,796
Total	23,251

Customer Deposits

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

Customers are frequently required to pay for AFIRS units and installation kits prior to the planned shipment date. This prepayment is recorded as a customer deposit, which is recognized as an accrued liability upon receipt. When the AFIRS unit and installation kit are shipped, the customer deposit is reclassified to unearned revenue, where it remains until the AFIRS Solution is functional and configured to provide contracted Voice and Data Services, at which point the unearned revenue is recognized as AFIRS sales revenue.

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

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

The chart below outlines the movement in the Company's customer deposits throughout the three and nine months ended September 30, 2016 and 2015. Payment was received for 12 installation kits in the third quarter of 2016 compared to 10 received in the third quarter of 2015. YTD, payment has been received for 44 installation kits, compared to 25 in 2015.

	Q3 2016 \$	Q3 2015 \$	Variance \$	YTD 2016 \$	YTD 2015 \$	Variance \$
Opening balance	810,234	864,332	(54,098)	1,020,675	790,405	230,270
Payments received	242,260	824,409	(582,149)	2,169,730	1,598,970	570,760
Moved to unearned revenue	(544,270)	(1,164,416)	620,146	(2,682,181)	(1,865,050)	(817,131)
Balance, September 30	508,224	524,325	(16,101)	508,224	524,325	(16,101)

Unearned Revenue

The chart below outlines the movement in the Company's unearned revenue throughout the three and nine months ended September 30, 2016 and 2015. Revenue was recognized for 25 installation kits in 2016's third quarter compared to 8 in the third quarter of 2015. YTD, revenue was recognized for 61 installation kits in 2016 compared to 30 in 2015. In Q3 2016, 44.1% of the unearned revenue balance at December 31, 2015 was recognized as earned revenue (2015: 4.7%).

	Q3 2016 \$	Q3 2015 \$	Variance \$	YTD 2016 \$	YTD 2015 \$	Variance \$
Opening balance	1,561,020	1,236,476	324,544	1,145,341	1,675,747	(530,406)
AFIRS sales: shipped	544,270	1,164,416	(620,146)	2,682,182	1,865,050	817,131
AFIRS sales: recognized	(1,353,021)	(474,397)	(878,624)	(3,065,738)	(1,606,321)	(1,459,417)
Voice and data services: recognized	(4,758)	(3,990)	(768)	(14,274)	(11,971)	(2,303)
Balance, September 30	747,511	1,922,505	(1,174,994)	747,511	1,922,505	(1,174,994)

Comprehensive Income

Revenue

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

Revenue sources

	Q3 2016 \$	Q3 2015 \$	Variance \$	YTD 2016 \$	YTD 2015 \$	Variance \$
Voice and data services	1,122,965	1,100,238	22,727	3,205,397	2,918,919	286,478
AFIRS sales	1,353,021	613,229	739,792	3,077,201	1,797,862	1,279,339
Parts sales	1,561,816	682,476	879,340	3,716,771	1,808,297	1,908,474
Services	16,566	123,404	(106,838)	203,995	162,780	41,215
Total	4,054,368	2,519,347	1,535,021	10,203,364	6,687,858	3,515,506

Overall, total revenue increased 60.9% from \$2,519,347 in Q3 2015 to \$4,054,368 in Q3 2016. AFIRS sales increased by 120.6%, while parts sales increased by 128.8%. Voice and data services increased by 2.1%, and services revenue decreased by 86.6%. Q3 2016 is now the highest revenue quarter in FLYHT history.

Voice and data services increased compared to last year due to a higher number of aircraft producing recurring revenue. Recurring revenue from FLYHT's existing client base is expected to continue to expand throughout 2016 and future years.

AFIRS sales increased in Q3 2016 as compared to Q3 2015 due to an increase in the number of installation kits meeting the requirements for revenue recognition. Revenue was recognized on 25 installation kits in Q3 2016 compared to 8 in Q3 2015.

Parts sales increased due to differences in the number of modems with related license fees ordered in 2016.

Services revenue decreased in 2016 compared to 2015 as less customers required customized documentation packages and training services. This revenue category can be expected to vary significantly between periods.

Revenue sources for the last eight quarters were:

	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014
Voice and data services	1,122,965	1,014,725	1,067,707	1,067,894	1,100,238	855,121	963,560	915,602
AFIRS sales	1,353,021	1,286,641	437,540	1,574,559	613,229	434,102	750,531	619,776
Parts sales	1,561,816	1,126,542	1,028,412	1,123,803	682,476	285,459	840,362	455,297
Services	16,566	109,757	77,672	3,011	123,404	23,921	15,455	228,006
Total	4,054,368	3,537,665	2,611,331	3,769,267	2,519,347	1,598,603	2,569,908	2,218,681

	Q3 2016 \$	Q3 2015 \$	YTD 2016 \$	YTD 2015 \$
North America	2,391,171	1,293,811	6,088,026	3,775,843
South/Central America	109,805	92,998	427,049	227,563
Africa/Middle East	261,048	462,047	976,932	845,660
Europe	118,618	77,409	254,538	290,655
Australasia	185,122	159,640	526,838	479,187
Asia	988,604	433,442	1,929,981	1,068,950
Total	4,054,368	2,519,347	10,203,364	6,687,858

	Q3 2016 %	Q3 2015 %	YTD 2016 %	YTD 2015 %
North America	59.0	51.4	59.6	56.5
South/Central America	2.7	3.7	4.2	3.4
Africa/Middle East	6.4	18.3	9.6	12.6
Europe	2.9	3.1	2.5	4.3
Australasia	4.6	6.3	5.2	7.2
Asia	24.4	17.2	18.9	16
Total	100.0	100.0	100.0	100.0

Gross Profit and Cost of Sales

FLYHT's cost of sales includes the direct costs associated with specific revenue types, including the AFIRS unit, installation kits, parts costs including modems, training and installation support, as well as associated shipping expenses and travel expenses for the Company's engineering personnel while performing on-site installation support. Installations on aircraft are performed by third parties at the customer's expense. Cost of sales as a percentage of revenue in the third quarter of 2016 was 33.2% compared to 26.7% in 2015's third quarter. The decrease in gross margin was due to differences in the mix of revenue sources in 2016 versus 2015 and a decrease in average AFIRS sales margin. Gross margin will fluctuate quarter over quarter depending on customer needs and revenue mix.

Gross margin for the last eight quarters was:

	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014
Gross Margin %	66.8	63.9	70.0	64.4	73.3	64.8	75.2	61.7
Cost of Sales %	33.2	36.1	30.0	35.6	26.7	35.2	24.8	38.3

Distribution Expenses (Recovery)

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

Major Category	Q3 2016 \$	Q3 2015 \$	Variance \$	YTD 2016 \$	YTD 2015 \$	Variance \$
Salaries and benefits	782,493	616,741	165,752	2,276,979	1,384,654	892,325
Share based compensation	-	27,755	(27,755)	92,442	93,050	(608)
Contract labour	94,567	276,112	(181,545)	342,578	624,704	(282,126)
Office	98,967	78,087	20,880	320,832	216,696	104,136
Travel	133,583	118,116	15,467	422,715	327,868	94,847
Equipment and maintenance	5,142	10,719	(5,577)	12,392	45,268	(32,876)
Depreciation	10,713	8,302	2,411	31,516	20,455	11,061
Marketing	51,207	6,088	45,119	86,677	78,555	8,122
Other	(67,383)	166	(67,549)	(103,303)	101,940	(205,243)
Total	1,109,289	1,142,086	(32,797)	3,482,828	2,893,190	589,638

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

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

Share based compensation expense remained consistent with the prior year.

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

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

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

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

Other expenses decrease was the result of differences in bad debt reserves required. The recoveries realized in both Q2 and Q3 2016 were payments received for a bad debt amount written off in 2014.

Administration Expenses

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

Major Category	Q3 2016 \$	Q3 2015 \$	Variance \$	YTD 2016 \$	YTD 2015 \$	Variance \$
Salaries and benefits	369,996	277,277	92,719	1,161,598	913,760	247,838
Share based compensation	-	12,810	(12,810)	228,058	238,909	(10,851)
Contract labour	35,332	19,783	15,549	123,918	101,570	22,348
Office	72,731	63,814	8,917	209,040	195,778	13,262
Legal fees	42,206	37,048	5,158	147,760	69,148	78,612
Audit and accounting	27,375	36,190	(8,815)	99,675	61,840	37,835
Investor relations	25,821	65,700	(39,879)	121,812	250,809	(128,997)
Brokerage, stock exchange, and transfer agent fees	4,853	7,020	(2,167)	55,511	55,943	(432)
Travel	14,310	59,049	(44,739)	89,559	150,484	(60,925)
Equipment and maintenance	22,311	25,136	(2,825)	63,125	52,185	10,940
Depreciation	2,201	2,423	(222)	6,436	7,794	(1,358)
Other	1,627	1,505	122	62,067	4,937	57,130
Total	618,763	607,755	64,836	2,368,559	2,103,157	265,402

Administration expenses were higher in 2016 due mainly to changes in people costs, an increase in directors' expense due to the addition of a board member in the last half of 2015, and increased legal fees that were partially offset by decreases in investor relations consultants.

Salaries and benefits were higher in 2016 compared with 2015, resulting from an increased cost of board members in combination with higher variable compensation.

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

Legal fees increased in the quarter and YTD due to employee related services, including international employment law and treasury matters.

Audit and accounting increases YTD are mainly due to service adjustments.

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

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

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

Research, Development and Certification Engineering Expenses (Recovery)

Major Category	Q3 2016 \$	Q3 2015 \$	Variance \$	YTD 2016 \$	YTD 2015 \$	Variance \$
Salaries and benefits	309,373	443,473	(134,100)	1,094,889	1,490,374	(395,485)
Share based compensation	-	-	-	37,220	76,646	(39,426)
Contract labour	166,928	78,997	87,931	186,888	434,615	(247,727)
Office	30,692	52,464	(21,772)	78,964	167,406	(88,442)
Travel	3,924	12,181	(8,257)	42,075	45,241	(3,166)
Equipment and maintenance	27,324	15,070	12,254	75,742	44,674	31,068
Components	8,596	12,028	(3,432)	28,800	37,418	(8,618)
SR&ED credit	-	-	-	(220,214)	(216,708)	(3,506)
Depreciation	3,607	3,826	(219)	10,676	13,626	(2,950)
Other	-	20,065	(20,065)	-	20,065	(20,065)
Settlement	-	-	-	540,450	-	540,450
Total	550,444	638,104	(87,660)	1,875,490	2,113,357	(237,867)

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

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

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

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

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

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

Other expenses attributable to relocation costs in Q3 2015 were not required in 2016.

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

Net Finance Costs

Major Category	Q3 2016 \$	Q3 2015 \$	Variance \$	YTD 2016 \$	YTD 2015 \$	Variance \$
Interest (income)	(9,945)	(2,128)	(7,817)	(27,567)	(2,128)	(25,439)
Net foreign exchange loss (gain)	(3,068)	(85,153)	82,085	8,209	(262,968)	271,177
Bank service charges	6,400	6,015	385	19,441	16,347	3,094
Interest expense	435	912	(477)	1,647	3,096	(1,449)
Government grant accretion	44,454	40,776	3,678	131,894	120,740	11,154
Debenture interest and accretion	83,671	177,027	(93,356)	433,879	507,721	(73,842)
Debenture cost amortization	-	2,691	(2,691)	5,295	7,986	(2,691)
Net finance costs	121,947	140,140	(18,193)	572,798	390,794	182,004

Net foreign exchange gain will vary between periods due to fluctuations in the value of the Canadian dollar in relation to the U.S. dollar. A weakening of the Canadian dollar has given rise to net foreign exchange gains in Q3 2016 on U.S. dollar denominated sales and purchases, in combination with fluctuations in U.S. denominated assets and liabilities. The inverse has occurred YTD.

Net Income (Loss)

Major Category	Q3 2016 \$	Q3 2015 \$	Variance \$	YTD 2016 \$	YTD 2015 \$	Variance \$
Net income (loss)	303,888	(683,225)	987,113	1,633,009	(2,687,562)	4,320,571
Net income (loss) without R&D	800,504	(45,120)	845,624	3,454,671	(574,205)	4,028,876

Foreign Exchange

All international and a majority of domestic sales of the Company's products and services are denominated in U.S. dollars. Accordingly, the Company is susceptible to foreign exchange fluctuations. In Q3 2016, 99.1% of the Company's gross sales were made in U.S. dollars, compared to 98.5% in Q3 2015. The Company expects this to continue as the aviation industry conducts the majority of its transactions in U.S. dollars, thus limiting the opportunity for sales in Canadian dollars or other major currencies. The Company also contracts in U.S. dollars for certain services and products related to cost of sales, which creates a natural hedge.

Other

Recent Accounting Pronouncements

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

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

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

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

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

Risks and Uncertainties

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

Installations at c-checks

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

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

Foreign currency fluctuations

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

General economic and financial market conditions

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

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

Dependence on key personnel and consultants

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

Dependence on new products

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

Availability of key supplies

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

Proprietary protection

Patent rights are extremely important to the continuation of the Company because the AFIRS technology is the Company's primary revenue source. The Company relies on contract, copyright and trademark laws and has received patents from the United States,

Chinese, Turkish and European patent offices. These patents are generally respected in other international jurisdictions as well. The risks involved with proprietary protection lie in other companies infringing on FLYHT patents or claiming patent infringement by FLYHT, though the Company has defended patent claims in court and been successful. FLYHT conducted due diligence on its technology and the conditions of its patent before applying and maintains that it holds unique characteristics from other technologies in the marketplace and does not infringe on the rights of any third parties.

Transactions with Related Parties

In the third and fourth quarters of 2015, the Company entered into an agreement with a company with ownership related to an officer of FLYHT. The company supplied consulting services in recruitment and supplied a contract resource to develop tools used to enhance the Company's ground based software. No amounts relating to this party were included in either contract labour nor accounts payable for the three and nine months ended September 30, 2016 (Q3 2015: contract labour: \$3,500; included in accounts payable and accrued liabilities: \$3,500; YTD 2015: contract labour: \$7,500; included in accounts payable and accrued liabilities: \$3,500).

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

Contractual Arrangement

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

Auditors' Involvement

National Instrument 51-102, Part 4, subsection 4.3 (3) (a), requires that if an auditor has not performed a review of the condensed consolidated interim financial statements there must be an accompanying notice indicating that the condensed consolidated interim financial statements have not been reviewed by an auditor.

The auditors of FLYHT Aerospace Solutions Ltd. have not performed a review of the condensed consolidated interim financial statements for the three and nine months ended September 30, 2016 and September 30, 2015.