2017

FLYHT AEROSPACE SOLUTIONS LTD.

SECOND QUARTER

MANAGEMENT DISCUSSION AND ANALYSIS

FLYHT™

INSIGHT • ACTION • CONTROL

LETTER TO SHAREHOLDERS

Overall, looking at our complete body of work, FLYHT had a very good second quarter. Financially, we are performing better in the first half of this year than we were at the same time than last year and our “FLYHT Plan” annual goals, while challenging, are still achievable. We continued to grow our sales contract backlog and remain successful internationally and especially in China. We are extremely busy working on aircraft certifications that we believe will be valuable to the company in future sales. We have entered into some very exciting trial agreements with industry titans and received a new patent from the United States Patent Office. Finally, we have achieved industry certification for our quality system. I am very pleased with these results.

For overall revenue, the second quarter was down 4% relative to the second quarter of 2016. The shortfall was within AFIRS hardware revenue and our ability to recognize shipped hardware kits, which was significantly lower relative to the same period last year. More specifically, it was caused by a slow April and May for hardware recognition; however, June was quite strong, representing 60% of the quarter total in this revenue category. Our other major revenue categories were up. Voice and Data Services, the recurring Software as a Service (SAAS) category, was up 14% over the second quarter of 2016 and Parts sales, which includes IP license payments for our shipments to A320 and A330 production and retrofit, was up 31%.

Things look better from a year-to-date perspective. Overall revenues are 16% better than this time last year. The AFIRS hardware revenue is within 1% of last year, Voice and Data Service revenue is up 11%, and Parts revenue is up 41%, relative to last year. Our custom Services revenue is down, but this is a minor component and is not predictable. Historically, our business is cyclical; the first half of the year traditionally lags the second half for overall revenues. We are therefore optimistic for the second half of the year, despite being a little bit behind where we wanted to be at this point in AFIRS hardware revenue. June hardware recognition was brisk, and the value and quantity of shipments in June and July have been exceptional. We set an aggressive revenue plan as part of our FLYHT plan and budget and we still see ways to achieve these goals.

FLYHT provided a sales update on June 26 which captured the newly contracted sales in the quarter, which totalled approximately USD $5 million and included both AFIRS hardware and recurring Voice and Data Service sales in China, our fastest growing market. Also, within that press release, FLYHT identified our sales order backlog, for the first time, as being greater than $25 million. This sales order backlog has been steadily growing (up about $10 million in the past 12 months) and is a source of future revenues as we ship contracted units and turn on contracted services. This figure creates significant optimism as we build our future business plans.

Another source of optimism is our Supplemental Type Certificate (STC) program which allows FLYHT to install on 95% of aircraft used for air transport. FLYHT is in the process of developing an STC which will allow many of the aircraft that have been installed with AFIRS, but which are not currently providing recurring SAAS Voice and Data Services, to be turned on in an overnight maintenance session. It is precisely this conversion that we hope can yield significant growth moving forward with our Voice and Data Service revenue component.

In June, we experienced a minor setback when we had to turn off one of our larger recurring voice and data services operators as they were renegotiating the service contract with their prime contractor, who had purchased our services as part of a larger contract. So, while we are signing up more operators for recurring data services, we are also encountering situations like this that can slow the growth we seek. We are informed that this contract has a good chance of reconciliation. Reinstating the contract will be important to meet our FLYHT Plan goal of growing the recurring data services component by 25% this year. This goal will be measured by Dec ’17 versus Dec ‘16 invoices for this revenue area.

FLYHT focused significant energy during the second quarter enhancing the FLYHTStream™ product and preparing logistically for two independent trials which will be conducted over the next year. Both trials will exercise FLYHT’s Automated Flight Information and Reporting System (AFIRS™) along with our cloud-based ground management system, UpTime™. As I outlined in a two-part CEO Letter to Investors (available online: part 1, part 2), the trials will focus on *Autonomous Distress Tracking* and the *Timely Access to Flight Data*. We feel particularly excited to be recognized as the technology leader in this field by these industry-shaping trial partners; one of whom was announced on August 10 as Boeing. We have expanded our capabilities in preparation for these trials, and FLYHT will offer solutions on new satellite systems in addition to our current offering via the Iridium network. Our system will provide the data necessary to create industry standards for performance in these areas. In addition, in June we announced the receipt of a patent for the FLYHTStream function from the United States Patent Office.

Finally, I would like to re-state the successful achievement of an industry aerospace quality certification under AS9100 in April of this year. The Company accomplishing this certification is yet another first and meets a requirement to supply to larger industry players.

Thank you for your continued support.

Best Regards,
Thomas R. Schmutz, Chief Executive Officer

MANAGEMENT DISCUSSION & ANALYSIS

This management discussion and analysis ("MD&A") of the financial and operating results of FLYHT Aerospace Solutions Ltd. ("FLYHT" or the "Company") is as of August 16, 2017 and should be read in conjunction with the condensed consolidated interim financial statements of the Company as at and for three and six months ended June 30, 2017 and 2016 and the accompanying notes, as well as FLYHT's consolidated annual financial statements and MD&A for the year ended December 31, 2016. Additional information with respect to FLYHT can be found on SEDAR at www.sedar.com.

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 earnings before interest, income tax, depreciation and amortization (EBITDA). FLYHT defines working capital as current assets less current liabilities. The Company defines modified working capital as current assets less current liabilities not including customer deposits or the current portion of unearned revenue. A clearer picture of short-term net cash requirements can be drawn by excluding these two items because those customer deposits and unearned revenue are nonrefundable. EBITDA is defined as income for the period, before net finance costs, depreciation and amortization of assets. These non-GAAP financial measures are always clearly indicated. The Company believes that these non-GAAP financial measures provide investors and analysts with useful information so they can better understand the financial results and perform a better analysis of the Company's growth and profitability potential. Since non-GAAP financial measures do not have a standardized definition, they may differ from the non-GAAP financial measures used by other companies. The Company strongly encourages investors to review its financial statements and other publicly filed reports in their entirety and not rely on a single non-GAAP measure.

Forward-Looking Statements

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

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

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

FLYHT Overview

FLYHT's mission is to improve aviation safety, efficiency and profitability (located in Calgary, Canada; publicly traded as: FLY:TSX.V; FLYLF:OTCQX). Airlines, leasing companies, fractional owners and original equipment manufacturers have installed the Automated Flight Information Reporting System (AFIRS™) on their aircraft to capture, process and stream aircraft data with real-time alerts. AFIRS sends this information through satellite networks to the UpTime™ cloud-based data center, which provides aircraft operators with direct insight into the operational status and health of their aircraft and enables them to take corrective action to maintain the highest standard of operational control.

AFIRS™ and UpTime™

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

FLYHT received regulatory certification for installation in a large number of widely used commercial aircraft brands and models (see systems approvals section). The AFIRS 228's features cater to the evolving needs of airlines by providing a customized and flexible product. In early 2016, FLYHT announced the Canadian Technical Standard Order (CAN-TSO) Design Approval, CAN-TSO-C159b for the AFIRS 228S. The certification, granted by Transport Canada, represents an additional level of airworthiness standards met by AFIRS to provide safety services voice and data.

FLYHTStream™

A revolutionary, industry-leading technology that performs real-time triggered alerting and black-box data streaming in the event of an abnormal situation on an aircraft. FLYHTStream can be activated automatically by a set of pre-determined factors, by the pilots or on the ground by airline operations. It uses AFIRS' onboard logic and processing capabilities in combination with UpTime's ground-based servers to interpret and route alerts and messages from the aircraft in trouble to key groups on the ground, such as the airline, operation centers and regulators. Animation software converts the raw FDR data into visual data that can be viewed from any computer, providing ground personnel a view of the controls and awareness of what's happening onboard the aircraft. FLYHT received a U.S. patent for data streaming technology in 2017.

FLYHTASD™

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

FLYHTHealth™

Consists of automated engine trend reporting and real-time engine and airframe exceedance monitoring and remote, real-time diagnostics. Automated 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 reporting system once a problem has been detected. The intent is then for the airline to use FLYHT's real-time systems diagnostics capabilities to interrogate systems information and identify the source of the problem and prepare the arrival station for repair, long before the aircraft lands at its destination. By automating and enhancing the real-time and long-term monitoring of airplane data, FLYHTHealth enables proactive management of maintenance and reduces "turn-time", downtime and the financial impact of unscheduled maintenance.

FLYHTLog™

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

FLYHTMail™

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

FLYHTVoice™

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

FLYHTFuel™

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

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 TCCA Approved Manufacturer, Approved Maintenance Organization and an EASA and a CAAC Part 145 Repair Facility. FLYHT is part of a select group of Canadian companies who are approved by TCCA as a Design Approval Organization (DAO). FLYHT is now AS9100 certified with the registrar SAI Global. The Company also holds multiple STCs to make appropriate modifications, such as installing FLYHT's AFIRS technology, to an aircraft's approved design.

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

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

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

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

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

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

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

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

STC Chart

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						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	A		A	**Boeing B737 -300, -400, -500**
A		A		A		A				**Boeing B737 -600**
A	A	A	A	A	I	A	A		A	**Boeing B737 -700, -800**
			I				I			**Boeing B737 -900**
	A						I			**Boeing 747-200**
A	A	A	A	A	I	A	A			**Boeing 757 -200**
A	A	A	A	A	I	A	A			**Boeing 767 -200, -300**
	A		A							**Boeing B777**
A	A*	A	I*	A	A*					**Bombardier DHC 8 -100, -200, -300 *Avmax**
A	A						I			**Bombardier DHC 8 -400**
A	A	A		A			A			**Bombardier CRJ 100, 200, 440**
	A						A			**Bombardier CRJ -700, 900**
A		A								**McDonnell Douglas DC-10 (KC-10 military)**
			A							**McDonnell Douglas MD-82**
	A		A							**McDonnell Douglas MD-83**
A										**Fokker 100**
A	A	A	A	A	A					**Hawker Beechcraft -750, 800XP, 850XP, 900XP**
A										**Viking Air DHC -7 (LSTC)**
	P		I				I			**Embraer EMB 190**
		A								**Embraer Legacy 600 and EMB – 135/145**

FLYHT has also received an approved AFIRS 228 STC for the Bombardier CRJ- 700, 900 from the DGAC. AFIRS 220 or 228 model
A = Approved, P = Pending (We have received a Provisions STC and are in the final stages before receiving a full STC), I = In Progress.

Trends and Economic Factors

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

The Aviation Industry in Q2 2017

The International Air Transport Association's (IATA) quarterly industry results, measured in Revenue Passenger Kilometres (RPK) and Freight Tonne Kilometres (FTK) are the passenger and freight contributions to airline revenue and are significant markers to determine the health of the industry. Passenger traffic (measured in RPK) saw a 7.9% increase in the first half of 2017, compared to the same period the previous year. Demand in domestic markets at 7.4% was slightly lower than international travel at 8.1%.[1] Global freight traffic (measured in FTK) increased by 10.4% in the first half of 2017 compared to 2016, nearly triple the industry's average growth rate over the last five years.[2]

There were mixed results from large commercial aircraft manufacturers compared to the second quarter, or YTD results from 2016, though all companies provided an update that they are on track to meet their 2017 outlook and targets. Airbus delivered 306 aircraft in the first half of 2017, compared to 298 in the same period of 2016.[3] Boeing saw a six percent decrease in deliveries to 352 in the first half of 2017 from 375 in 2016.[4] Embraer announced the delivery of 35 commercial aircraft in the second quarter of 2017, a 35% increase over the second quarter of 2016. The business jet deliveries decreased slightly, with 24 delivered during the second quarter of this year compared to 26 in the second quarter last year.[5] Bombardier reported 36 business aircraft deliveries in the second quarter, compared to 42 in the same period of 2016, a 6% decrease[6] and similar to their commercial fleet where deliveries were down 7% to 20 from 27 in the second quarter of 2016.[7]

The General Aviation Manufacturers Association (GAMA) reported that worldwide general aviation aircraft shipments increased 2.7% in the first half of 2017 compared to the same period last year. [8]

FLYHT's Market

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

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

The strengthening of the Canadian dollar relative to the U.S. dollar throughout Q2 2017 had a negative impact on the Company's revenue and income compared to Q2 2016. As a result of these currency movements, the Company's revenues, which are substantially all denominated in U.S. dollars, were lower than they would have been had the foreign exchange rates not changed. It is the standard of the aviation industry to conduct business in U.S. dollars. While the majority of the Company's operating and overhead costs are denominated in Canadian dollars, a significant portion of the cost of sales, marketing and distribution costs are U.S. dollar denominated, and therefore a natural hedge exists against fluctuations of the Canadian dollar.

[1] http://www.iata.org/whatwedo/Documents/economics/passenger-analysis-jun-2017.pdf
[2] http://www.iata.org/pressroom/pr/Pages/2017-08-02-01.aspx
[3] http://www.airbus.com/newsroom/press-releases/en/2017/07/H12017.html
[4] http://boeing.mediaroom.com/2017-07-26-Boeing-Reports-Strong-Second-Quarter-Results-Raises-EPS-and-Cash-Flow-Guidance
[5] https://daflwcl3bnxyt.cloudfront.net/m/59a5153a0e929f1c/original/Release-Embraer-2Q17.pdf
[6] http://ir.bombardier.com/images/ckeditor/staging/upload/ckeditor/files/Bombardier-Q2C2017-Highlights-BBA-en.pdf
[7] http://ir.bombardier.com/images/ckeditor/staging/upload/ckeditor/files/Bombardier-Q2C2017-Highlights-BCA-en.pdf
[8] https://gama.aero/news-and-events/press-releases/gama-publishes-second-quarter-airplane-shipment-report-2/

Contracts and Achievements of Q2 2017

Contracts

In April, FLYHT announced it entered into a contract with a new commercial airline customer in the People's Republic of China for the sale of AFIRS 228 on Airbus A320 aircraft. The contract is valued at approximately USD $1.9 million.

To end the quarter, in June FLYHT announced that contracts had been signed with seven current customers for additional AFIRS 228 units and/or voice and data services. These included two Chinese airlines, three customers in Africa, one in North America and one in Mexico. FLYHT also received orders from an existing OEM partner for approximately USD $2.2 million of parts with related license fees for delivery through January 2018. These contracts will total approximately USD $3 million assuming FLYHT provides services over the full term of the agreements.

Achievements

In June, FLYHT announced the receipt of a patent from the United States Patent and Trademark Office for FLYHT's emergency data streaming technology, FLYHTStream.

In the quarter, FLYHT was awarded an STC by the CAAC for the Boeing 737-300/400/500 aircraft. FLYHT also received its AS9100C certification.

Results of Operations – three and six months ended June 30, 2017 and 2016

Selected Results

	Q2 2017 $	Q1 2017 $	Q4 2016 $	Q3 2016 $
Assets	7,710,302	7,615,545	6,516,206	9,189,104
Non-current financial liabilities	1,209,206	1,072,848	974,749	996,121
Revenue	3,388,030	3,729,082	4,127,827	4,054,368
Cost of sales	1,124,487	1,138,602	1,034,450	1,346,341
Distribution expenses	1,420,236	1,195,194	1,424,211	1,101,318
Administration expenses	1,088,709	638,120	719,097	626,733
Research, development and certification engineering expenses	399,920	561,158	725,739	550,443
Results from operating activities	(645,322)	196,008	224,330	429,533
Depreciation	25,093	22,148	18,687	16,302
EBITDA*	(620,229)	218,156	243,017	445,835
Income (loss)	(724,102)	113,340	79,709	303,890
Income (loss) per share (basic & fully diluted)	(0.00)	0.00	0.00	0.00
	Q2 2016 $	**Q1 2016 $**	**Q4 2015 $**	**Q3 2015 $**
Assets	9,655,504	5,803,079	5,478,867	6,140,675
Non-current financial liabilities	1,002,872	602,011	390,110	3,267,030
Revenue	3,537,665	2,611,331	3,769,267	2,519,347
Cost of sales	1,278,746	861,965	1,340,513	672,341
Distribution expenses	1,248,783	1,132,727	1,084,443	1,142,086
Administration expenses	1,103,399	638,427	1,573,796	607,755
Research, development and certification engineering expenses	336,871	988,176	689,195	638,104
Results from operating activities	2,793,032	(1,009,964)	(918,680)	(540,939)
Depreciation	15,562	16,128	15,896	13,652
EBITDA*	2,808,594	(993,836)	(902,784)	(527,287)
Income (loss)	2,572,061	(1,242,942)	(1,203,998)	(683,224)
Income (loss) per share (basic & fully diluted)	0.01	(0.01)	(0.01)	0.00
	Q2 2015 $	**Q1 2015 $**	**Q4 2014 $**	**Q3 2014 $**
Assets	6,344,752	7,752,509	8,275,546	8,968,372
Non-current financial liabilities	3,053,577	5,407,303	5,506,179	2,728,769
Revenue	1,598,603	2,569,908	2,218,681	1,808,794
Cost of sales	562,535	637,901	849,221	655,927
Distribution expenses	987,330	763,774	990,650	806,051
Administration expenses	943,931	551,471	780,039	985,756
Research, development and certification engineering expenses	737,968	737,285	772,725	848,119
Results from operating activities	(1,633,161)	(120,523)	(1,173,954)	(1,487,059)
Depreciation	13,707	13,618	1,932	22,127
EBITDA*	(1,619,454)	(106,905)	(1,172,022)	(1,464,932)
Income (loss)	(1,943,924)	(60,414)	(1,305,712)	(1,653,147)
Income (loss) per share (basic & fully diluted)	(0.01)	0.00	(0.01)	(0.01)

*See Non-GAAP Financial Measures

Financial Position

Liquidity and Capital Resource

The Company's cash at June 30, 2017 increased to $1,181,607 from $709,958 at December 31, 2016. The Company has an available and undrawn operating line of $1.5 million at Canadian chartered bank prime plus 1.5%, secured by 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.

At June 30, 2017, the Company had positive working capital of $2,369,921 compared to positive $1,724,190 as of December 31, 2016, an increase of $645,731. 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 June 30, 2017 would be positive $3,936,083 compared to positive $2,869,324 at December 31, 2016.

The Company funded Q2 2017 operations primarily through cash received from sales.

	June 30, 2017 $	December 31, 2016 $	Variance $
Cash and cash equivalents	1,181,607	709,958	471,649
Restricted cash*	250,000	250,000	-
Trade and other receivables	2,648,603	2,105,385	543,218
Deposits and prepaid expenses	424,530	216,819	207,711
Inventory	1,742,825	1,556,794	186,031
Trade payables and accrued liabilities	(3,104,165)	(2,163,307)	(940,858)
Unearned revenue	(656,844)	(827,235)	170,391
Loans and borrowings	(103,767)	(97,895)	(5,872)
Finance lease obligations	(4,607)	(15,553)	10,946
Current tax liabilities	(8,261)	(10,776)	2,515
Working capital**	**2,369,921**	**1,724,190**	**645,731**
Unearned revenue	656,844	827,235	(170,391)
Customer deposits	909,318	317,899	591,419
Modified working capital**	**3,936,083**	**2,869,324**	**1,066,759**

*See Subsequent Events
**See Non-GAAP Financial Measures

As at August 16, 2017, FLYHT's issued and outstanding share capital was 20,963,617.

The consistent achievement of positive earnings is necessary before the Company can improve liquidity. The Company has continued to expand its cash flow potential through its continued marketing drive to clients around the world and signature of an increasing size and number of contracts for delivery of AFIRS units and related services. Management believes that the Company's installation momentum, conversion of installations to recurring revenue, new revenue streams, and ongoing sales will be sufficient to meet standard liquidity requirements going forward. Q2 2017 revenue was a 4.2% decrease over Q2 2016, contributing to an loss from operating activities of $645,322; being $3,438,354 lower than Q2 2016, mainly due to the other income due to the sale of the IP license in Q2 2016 that did not recur in 2017.

To continue as a going concern, the Company will need to maintain profitability and/or obtain additional financing to fund ongoing operations. If general economic conditions in the industry or the financial condition of a major customer deteriorates, or revenue streams and expanding markets adversely change, then the Company may have to scale back operations to create positive cash flow from existing revenue and/or raise the necessary financing in the capital markets. It is the Company's intention to continue to fund operations by adding 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.

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

Contractual Obligations

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

June 30, 2017	< 2 months $	2-12 months $	1-2 years $	2-5 years $	> 5 years $	Total $
Accounts payable	1,358,644	-	-	-	-	1,358,644
Compensation and statutory deductions	439,292	235,764	108,000	-	-	783,056
Finance lease liabilities	3,093	3,093	-	-	-	6,186
Accrued liabilities	1,943	108,634	11,658	24,613	-	146,848
Loans and borrowings	-	-	119,333	984,422	1,030,935	2,134,690
Total	**1,802,972**	**347,491**	**238,991**	**1,009,035**	**1,030,935**	**4,429,424**

Under SADI, the Company has, at June 30, 2017, an outstanding repayable balance of $1,626,814 (2016: 1,730,582). 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.

On November 9, 2016, the Company signed a contribution agreement with Western Economic Diversification Canada for a Western Innovation initiative (WINN) contribution to support plans for technology development in the air and ground components of the products. Under the terms of the agreement, a repayable WINN contribution to the value of the lesser of 50% of the eligible project costs to December 10, 2018 or $2,350,000 will be received. The amount is repayable over five years commencing January 1, 2020. In Q2 2017, the Company received contributions totaling $422,146 under this agreement (2016: nil), bringing the 2017 YTD total received to $507,875 (2016: nil).

There have been no changes to the Company’s operating lease requirements.

Customer Deposits

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

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

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

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

The chart below outlines the movement in the Company’s customer deposits throughout the three and six months ending June 30, 2017 and 2016. Payment was received for 31 installation kits in the second quarter of 2017 compared to 17 received in the second quarter of 2016. YTD, payment has been received for 45 installation kits, compared to 32 in 2016.

	Q2 2017 $	Q2 2016 $	Variance $	YTD 2017 $	YTD 2016 $	Variance $
Opening balance	701,556	698,561	2,995	317,899	1,020,675	(210,441)
Payments received	789,972	1,014,022	(224,050)	2,071,637	1,927,470	(348,168)
Moved to unearned revenue	(582,210)	(902,349)	320,139	(1,480,218)	(2,137,911)	657,693
Balance, June 30	**909,318**	**810,234**	**99,084**	**909,318**	**810,234**	**99,084**

Unearned Revenue

The chart below outlines the movement in the Company's unearned revenue throughout the three and six months ending June 30, 2017 and 2016. Revenue was recognized for 17 installation kits in 2017's second quarter compared to 27 in the second quarter of 2016. YTD, revenue was recognized for 32 installation kits in 2017 compared to 36 in 2016. In Q2 2017, 31.2% of the unearned revenue balance at December 31, 2016 was recognized as earned revenue (Q2 2016: 31.8%).

	Q2 2017 $	Q2 2016 $	Variance $	YTD 2017 $	YTD 2016 $	Variance $
Opening balance	807,494	1,953,012	(1,145,518)	827,235	1,145,341	(318,106)
AFIRS sales: shipped	582,210	902,349	(320,139)	1,480,218	2,137,911	(657,693)
AFIRS sales: recognized	(727,858)	(1,289,583)	561,725	(1,640,658)	(1,712,717)	72,059
Voice and data services: recognized	(5,002)	(4,758)	(244)	(9,951)	(9,515)	(436)
Balance, June 30	**656,844**	**1,561,020**	**(904,176)**	**656,844**	**1,561,020**	**(904,176)**

Comprehensive Income

Revenue

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

Revenue sources

	Q2 2017 $	Q2 2016 $	Variance $	YTD 2017 $	YTD 2016 $	Variance $
Voice and data services	1,158,340	1,014,725	143,615	2,312,813	2,082,432	230,381
AFIRS sales	727,858	1,286,641	(558,783)	1,705,417	1,724,181	(18,764)
Parts sales	1,479,402	1,126,542	352,860	3,043,320	2,154,954	888,366
Services	22,430	109,757	(87,327)	55,562	187,429	(131,867)
Total	**3,388,030**	**3,537,665**	**(149,635)**	**7,117,112**	**6,148,996**	**968,116**

Overall, total revenue decreased 4.2% from Q2 2017 to Q2 2016. AFIRS sales decreased by 43.4%, Voice and data services increased by 14.2%, Parts sales increased by 31.3%, while Services revenue decreased by 79.6%.

Voice and data services increased compared to last year, due to a higher number of aircraft producing recurring revenue partially offset by the lower value of the US dollar. This recurring revenue accounted for 34.2% of revenue in Q2 2017 (Q2 2016: 28.7%). Recurring revenue from FLYHT's existing client base is expected to continue to expand throughout 2017 and future years.

AFIRS sales decreased in Q2 2017 as compared to Q2 2016 due to a combination of a decrease in the number of installation kits meeting the requirements for revenue recognition, together with lower average revenue per installation kit. Revenue was recognized for 17 installation kits in 2017's second quarter compared to 27 in the second quarter of 2016. YTD, revenue was recognized for 32 installation kits in 2017 compared to 36 in 2016.

Parts sales increased due to differences in the number of modems with related license fees ordered in 2017 compared to 2016.

Services revenue decreased in 2017 compared to 2016 due to a lower number of technical services provided to customers throughout 2017, mainly customized engineering documentation and training services. This revenue category can be expected to vary significantly between periods and years.

Revenue sources for the last eight quarters were:

	Q2 2017 $	Q1 2017 $	Q4 2016 $	Q3 2016 $	Q2 2016 $	Q1 2016 $	Q4 2015 $	Q3 2015 $
Voice and data services	1,158,340	1,154,473	1,169,741	1,122,965	1,014,725	1,067,707	1,067,894	1,100,238
AFIRS sales	727,858	977,560	854,406	1,353,021	1,286,641	437,540	1,574,559	613,229
Parts sales	1,479,402	1,563,918	2,091,720	1,561,816	1,126,542	1,028,412	1,123,803	682,476
Services	22,430	33,131	11,960	16,566	109,757	77,672	3,011	123,404
Total	**3,388,030**	**3,729,082**	**4,127,827**	**4,054,368**	**3,537,665**	**2,611,331**	**3,769,267**	**2,519,347**

	Q2 2017 $	Q2 2016 $	YTD 2017 $	YTD 2016 $
North America	2,200,784	2,099,953	4,299,618	3,696,854
South/Central America	103,102	258,463	204,159	317,244
Africa/Middle East	353,853	352,472	633,020	715,884
Europe	75,406	75,406	147,236	135,921
Australasia	154,618	181,155	328,007	341,716
Asia	500,267	570,216	1,505,072	941,377
Total	**3,388,030**	**3,537,665**	**7,117,112**	**6,148,996**

	Q2 2017 %	Q2 2016 %	YTD 2017 %	YTD 2016 %
North America	65.0	59.4	60.4	60.1
South/Central America	3.0	7.3	2.9	5.2
Africa/Middle East	10.4	10.0	8.9	11.6
Europe	2.2	2.1	2.1	2.2
Australasia	4.6	5.1	4.6	5.6
Asia	14.8	16.1	21.1	15.3
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, 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 second quarter of 2017 was 33.2% compared to 36.1% in 2016's second quarter. The increase in gross margin was due to differences in the mix of revenue sources in 2017 versus 2016. Gross margin will fluctuate quarter over quarter depending on customer needs and revenue mix.

Gross margin for the last eight quarters was:

	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015
Gross Margin %	66.8	69.5	74.9	66.8	63.9	67.0	64.4	73.3
Cost of Sales %	33.2	30.5	25.1	33.2	36.1	33.0	35.6	26.7

Distribution Expenses

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

Major Category	Q2 2017 $	Q2 2016 $	Variance $	YTD 2017 $	YTD 20176 $	Variance $
Salaries and benefits	610,212	775,081	(164,869)	1,330,344	1,494,485	(164,141)
Share based compensation	142,053	92,442	49,611	149,118	92,442	56,676
Contract labour	240,847	108,184	132,663	375,911	248,011	127,900
Office	109,895	110,065	(170)	215,833	221,865	(6,032)
Travel	165,971	153,777	12,194	311,807	289,132	22,675
Equipment and maintenance	8,100	7,888	212	19,201	15,221	3,980
Depreciation	8,127	10,209	(2,082)	15,692	20,804	(5,112)
Marketing	121,758	27,327	94,431	182,055	35,470	146,585
Other	13,273	(36,190)	49,463	13,843	(35,920)	49,763
Total	**1,420,236**	**1,248,783**	**171,453**	**2,613,804**	**2,381,510**	**232,294**

Distribution expenses increased compared to 2017 due mainly to higher costs associated with sales activities.

Salaries and benefits have decreased in 2017 primarily due to the replacement of sales staff with a contractor, as can be noted in the increases in **Contract labour**, together with an increased allocation of staffing costs based on research and development activity requirements.

Share based compensation expense increased in 2017 as a result of an increased number of shares granted to employees involved in distribution activities.

Marketing expense has increased in the quarter and YTD 2017 due to an increased attendance at industry tradeshows, in combination with the recording in May 2017 of the program filmed on Worldwide Business with kathy ireland ®, and the costs involved with performing a trial with a potential new customer.

Other expense increases are the result of differences in bad debt reserve accrued in Q2 2017, as compared to bad debt recovery in Q2 2016.

Administration Expenses

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

Major Category	Q2 2017 $	Q2 2016 $	Variance $	YTD 2017 $	YTD 2016 $	Variance $
Salaries and benefits	445,309	445,557	(248)	778,026	791,600	(13,574)
Share based compensation	243,907	211,328	32,579	269,847	228,058	41,789
Contract labour	82,450	52,710	29,740	151,762	88,586	63,176
Office	72,368	75,572	(3,204)	145,404	136,309	9,095
Legal fees	28,270	63,045	(34,775)	43,951	105,555	(61,604)
Audit and accounting	71,680	39,225	32,455	114,055	72,300	41,755
Investor relations	51,054	52,798	(1,744)	86,287	95,991	(9,704)
Brokerage, stock exchange, and transfer agent fees	18,050	37,601	(19,551)	23,698	50,658	(26,960)
Travel	38,689	44,742	(6,053)	45,255	75,249	(29,994)
Equipment and maintenance	21,986	22,450	(464)	42,201	32,844	9,357
Depreciation	10,907	2,066	8,841	21,424	4,235	17,189
Other	4,039	56,305	(52,266)	6,545	60,441	(53,896)
Total	**1,088,709**	**1,103,399**	**(14,690)**	**1,728,455**	**1,741,826**	**(13,371)**

Administration expenses in 2017 were comparable with 2016.

Contract labour expenses were higher in 2017 due to fees related to professional services, deploying guiding principles, and the Company's interim CFO.

Legal fees decreased in the quarter as several employee related services, including international employment law, and treasury matters, that were required in 2016 were not required in 2017.

Audit and accounting increased in the quarter and YTD resulting from service adjustments, including evaluation and development of an implementation plan to meet the requirements of IFRS 15.

Brokerage, stock exchange, and transfer agent fees have lessened in 2017, as the expenses involved in May 2016's private placement were not a requirement in 2017.

Other expenses also decreased in 2017 from the same period in 2016, as the employee relocation in Q2 2016 did not recur in 2017.

Research, Development and Certification Engineering Expenses (Recovery)

Major Category	Q2 2017 $	Q2 2016 $	Variance $	YTD 2017 $	YTD 2016 $	Variance $
Salaries and benefits	520,054	402,684	117,367	899,740	785,518	114,222
Share based compensation	25,448	37,220	(11,772)	25,448	37,220	(11,772)
Contract labour	44,689	11,126	33,563	143,557	19,960	123,597
Office	24,604	29,733	(5,129)	49,803	48,272	1,531
Travel	64,018	31,909	32,109	90,268	38,151	52,117
Equipment and maintenance	26,479	26,751	(272)	56,068	48,418	7,650
Components	39,797	14,173	25,624	69,329	20,203	49,126
SR&ED credit	(116,514)	(220,214)	103,700	(116,514)	(220,214)	103,700
Depreciation	6,059	3,489	2,570	10,125	7,069	3,056
Government grants	(234,711)	-	(234,711)	(266,746)	-	(266,746)
Warranty settlement	-	-	-	-	540,450	(540,450)
Total	**399,920**	**336,871**	**63,049**	**961,078**	**1,325,047**	**(363,969)**

Research and Development expense was lower in 2017 than the prior year due mainly to a 2016 settlement of a warranty claim that did not recur in the current year, the WINN grants received in 2017, partially offset by a lower SR&ED credit. Research and development costs vary according to specific project requirements.

Salaries and benefits have increased in the current year mainly due to differences in allocations from other cost centres to R&D.

Contract labour has increased in the current year mainly due to an expansion of the Company's software development, test capabilities and certification engineering.

Travel expenses increased due to an increased requirement for hardware testing and certification. Cost of travel varies significantly depending on the location of customers and regions served.

Components requirements were higher in 2017 than in 2016 as a higher number of expensed parts were used in development and testing activities.

The decreased **SR&ED credit** in 2017 was due to a difference in costs associated with eligible activities for this program.

Government grants increased due to funding received in 2017. The $234,711 shown is the portion of funds received from WINN that has been accounted for as a grant.

Net Finance Costs

Major Category	Q2 2017 $	Q2 2016 $	Variance $	YTD 2017 $	YTD 2016 $	Variance $
Interest (income)	(3,275)	(7,164)	3,889	(5,044)	(17,621)	12,577
Net foreign exchange loss (gain)	7,020	(2,423)	9,443	32,908	11,277	21,631
Bank service charges	19,062	5,993	13,069	25,368	13,041	12,327
Interest expense	68	547	(479)	559	1,213	(654)
Government grant accretion	54,223	43,366	10,857	102,970	87,439	15,531
Debenture interest and accretion	-	178,667	(178,667)	-	350,207	(350,207)
Debenture cost amortization	-	2,633	(2,633)	-	5,295	(5,295)
Net finance costs	**77,098**	**221,619**	**(144,521)**	**156,761**	**450,851**	**(294,090)**

Debenture interest and accretion decreased in 2017 as all debentures were redeemed in 2016.

Net Income (Loss)

Major Category	Q2 2017 $	Q2 2016 $	Variance $	YTD 2017 $	YTD 2016 $	Variance $
Net income (loss)	(724,102)	2,572,061	(3,296,163)	(610,762)	1,329,119	(1,939,881)

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 Q2 2017, 99.0% of the Company's gross sales were made in U.S. dollars, compared to 98.9% in Q2 2016. 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 16* – Leases replaces IAS 17, leases. Under the new standard, more leases may come on-balance sheet for lessees, with the exception of leases with a term not greater than 12 months and leases considered to be of small value (January 1, 2019).

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

> *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 the Company expects will have an impact on the 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).

The Company intends to adopt this standard effective January 1, 2018, and is not able at this time to estimate reasonably the impact that this standard will have on the 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 175 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 responsible for every continent. While some economies of the world may be in a slump or downturn, there is a place for FLYHT in growing markets. FLYHT also demonstrates to potential customers the impressive return on investment model, how quickly potential customers can improve operational efficiency, and ultimately how much AFIRS will save them in operating cost.

Dependence on key personnel and consultants

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

Dependence on new products

The Company has completed the development of the AFIRS 228 product line and continues to build out its AFIRS 228 Supplemental Type Certificate portfolio. Continued success is dependent on the maintenance of these certifications and the sustaining engineering activities to maintain the manufacturability of the hardware. The bulk of the Company's development resources are engaged in the creation of new capabilities of UpTime Cloud. FLYHT is confident the product fills a gap in the industry, as evidenced by sales of the AFIRS 228 throughout 2013 to 2017. The Company's success will ultimately depend on the success of its products, and future enhancements made to same.

Availability of key supplies

FLYHT services 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 servicing 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

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.

Subsequent Events

a. The TSX Venture Exchange approved a consolidation (the "Consolidation") of the Company's common shares on a 10 to 1 basis, effective July 17, 2017. The Consolidation was previously approved by the Company's shareholders at the Annual and Special Meeting held on May 10, 2017.

   The Consolidation results in one (1) new post-consolidated common share being issued for ten (10) old pre-consolidated common shares.

   The Consolidation took effect on July 17, 2017 with Common Shares trading on a post-Consolidation basis beginning at the open of markets on July 17, 2017. At the date of the consolidation, there were a total of 209,636,273 Common Shares issued and outstanding. Upon completion of the Consolidation, FLYHT had approximately 20,963,617 (after taking into account certain fractional rounding) Common Shares issued and outstanding.

b. On July 7, 2017 the Company amended its operating demand loan with a Canadian chartered bank to increase its borrowing availability to CAD $1.5 million from $250,000. The Line of Credit continues to bear interest at Canadian chartered bank prime plus 1.5%. 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. This amendment released the GIC of $250,000 previously pledged as security.

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 six months ended June 30, 2017 and June 30, 2016.