2017

FLYHT AEROSPACE SOLUTIONS LTD.

THIRD QUARTER

FLYHT
INSIGHT • ACTION • CONTROL

TABLE OF CONTENTS

Commonly used Financial Terms and Aviation Acronyms

ACARS: Aircraft Communications Addressing and Reporting System
ADCC: Aircraft Data Communication Corporation
AFIRS™: Automated Flight Information Reporting System
ANAC: National Civil Aviation Agency of Brazil
BEA: Bureau d'Enquetes et d'Analyses (French authority for safety investigations in civil aviation)
CAAC: Civil Aviation Administration of China
COMAC: Commercial Aircraft Corporation of China
DAO: Design Approval Organization
DGAC: Direccion General de Aeronautica Civil (Mexico's certification organization)
EASA: European Aviation Safety Agency
EBITDA: Earnings before interest, taxes, depreciation and amortization
ECAA: Egyptian Civil Aviation Authority
FAA: Federal Aviation Administration
GAAP: Generally Accepted Accounting Principles
GAMA: General Aviation Manufacturers Association
GAMECO: Guangzhou Aircraft Maintenance Engineering Company Limited
IATA: International Air Transport Association
ICAO: International Civil Aviation Organization
ICE: Iridium Compatible Equipment
IFRS: International Financial Reporting Standards
ITU: International Telecommunications Union
MD&A: Management Discussion and Analysis
NCAA: Nigerian Civil Aviation Authority
NTSB: National Transportation Safety Board
OEM: Original Equipment Manufacturer
QTD: Quarter-to-date
R&D: Research and Development
SADI: Strategic Aerospace and Defence Initiative
SFP: Statement of Financial Position
STC: Supplemental Type Certificate
TCCA: Transport Canada Civil Aviation
WINN: Western Innovation Initiative
YTD: Year-to-date

LETTER TO SHAREHOLDERS

FLYHT's third quarter was not as strong as we had anticipated; however, the fundamentals of the business remain strong, and we continue positioning ourselves for success in the market. We are ahead of last year from a revenue perspective, we are generating cash through normal operations, we continue to win business around the globe and grow our $27M undelivered backlog of AFIRS hardware and voice and data services (V&DS) sales contracts and purchase orders. We also continue to work with industry heavyweights to demonstrate our patented, flight data streaming technology as an answer to forthcoming industry regulations. We have hired critical staff who can bring new ideas to energize our capital markets and investor relations activities. I am quite pleased with this progress.

FLYHT's third quarter revenue in 2017 was 18% below that of 2016, primarily due to shortfalls in Parts and V&DS revenues, which were down 45% and 11%, respectively. The Parts revenue category includes our spare parts, but primarily is comprised of our Iridium MODEM and licensing revenues for the A320/A330 program. FLYHT's product remains the only available Satcom option today for these aircraft, however our OEM partner lowered its forecast for the rest of this year and next year. We will investigate this further and provide guidance if we can.

One primary reason for the slowdown in V&DS - the software as a service (SaaS), subscription-based service - was outlined in the letter to shareholders in our second quarter report, where I highlighted that one of our larger contracts was suspended while the prime contractor renegotiated the services with this customer. We had hoped this situation would have been resolved at this point, but it is our understanding that these negotiations continue. This negatively impacted V&DS both in June of the second quarter and the entire third quarter. In addition, FLYHT is behind in our goals for selling and turning on V&DS revenue, so it is down a net 11% relative to last year's quarter.

The good revenue news is that FLYHT had a relatively strong quarter for recognition of AFIRS hardware, exceeding the same quarter of last year by 3%. I had mentioned on the second quarter conference call that we had a record value of shipments month in July, which significantly helped in this revenue category. As noted in our Third Quarter 2017 Update (October 3, 2017), we are behind the goal for this revenue category, due in part to delays in the test flight and on-aircraft inspection for the Embraer E-190 aircraft. The test flight has been completed and the Transport Canada Supplemental Type Certificate (STC) and associated Chinese VSTC have been received, allowing us to make some shipments in the third quarter. The on-aircraft inspection is scheduled, and we are still working toward the Federal Aviation Administration STC and associated Chinese VSTC required by a certain customer and anticipate accomplishing this prior to the end of this year. While this situation is not ideal, we are confident the business is still there for us once we obtain these certifications and the expected revenues will begin to be recognized about two quarters later than we had planned. FLYHT has demonstrated exceptional competence in earning these necessary STC's, owning what we believe to be the most extensive Satcom STC library in the world.

Year-to-date, we are ahead of last year's revenue by more than 2% and are ahead of last year's revenue in each of the major revenue categories of AFIRS hardware, Parts, and V&DS - despite the headwinds described above. It will be difficult to achieve our stated goal of 25% revenue growth at this point, but we believe we will have a solid fourth quarter in AFIRS hardware shipments. However, it may be difficult to be earnings-positive for the year if the A320/A330 OEM shipments stay at forecasted levels, due to the loss of margin associated with this part of FLYHT's revenue base.

Why am I positive about FLYHT's future?

First, the company is doing quite well with working capital and the business is generating cash. We began the year with more than $700K of cash and cash equivalents after paying the final matured debenture last year, and finished the third quarter with approximately $2.6M in cash. This increase was the result of generating cash from operations in the year as well as a net cash inflow from financing and investing activities in the period. We have a line of credit with a major banking institution for $1.5M, which we have not drawn upon, to date. We have been drawing against the $2.4M Western Economic Canada WINN contribution agreement according to plan, with approximately $800K received to date.

FLYHT provided a sales update on October 3, 2017, which captured the newly contracted sales in the quarter. The sales totaled approximately USD $3.1M and included both AFIRS hardware and V&DS sales for Bahamasair, two Chinese cargo operators, our first ever Korean operator, a military logistics company and our second aircraft leasing company. Along with the agreement with Azure Airlines, a middle eastern operator, our sales contracts and purchase orders for the year total nearly USD $16M. It is particularly exciting to see our customer base diversifying as we close sales contracts in regions other than China. Our total undelivered backlog of AFIRS hardware and V&DS now exceeds $27M, delivery of which depends upon the achievement of specific STC's, aircraft delivery and availability, and customers executing the orders, among other factors.

We now have three Chinese operators and approximately 50 aircraft using our subscription-based, SaaS V&DS in China, and we are making good progress in launching an Amazon Web Services UpTime™ Cloud instance inside of China; which is one of our unpublished goals and we expect to have this completed during this calendar year. All of this has been accomplished since June of last year, when you recall we first launched V&DS in China. Overall, we have successfully signed 23 of 57 Chinese operators to use AFIRS. We feel that we can secure more operators in China and that we can continue to convert these operators to use our V&DS subscriptions.

Additional optimism lies with our STC program, which allows FLYHT to install its hardware and software on approximately 95% of aircraft used for commercial air transport. I reported in the October 3rd Sales update that FLYHT has received an STC that will allow us to target many of the aircraft that have been installed with AFIRS, but which are not currently capable of providing recurring SaaS subscription services. This STC provides instructions to convert the installation in an overnight maintenance session to a status that allows FLYHT to provide recurring data services. We believe that this STC can significantly improve our ability to grow the V&DS revenue component in 2018 and beyond. Approximately 30% of last year's revenue came from a monthly average of 312 aircraft using these services, so we are bullish about our ability to grow this number by selling subscription services via this new STC.

FLYHT has been preparing for trials with industry giants Boeing and Inmarsat. As previously announced, the Boeing trial is being conducted on a FedEx owned B-777 as part of Boeing's ecoDemonstrator program. Boeing is conducting several technology investigations on this aircraft, but only FLYHT was chosen to implement streaming flight data in order to demonstrate a means of future compliance with new regulations created by the International Civil Aviation Organization (ICAO). These regulations include Autonomous Distress Tracking and Timely Access to Flight Data (outlined in a two-part CEO Letter to Investors available online: part 1, part 2). It is Boeing's intent to take the data collected from this trial, which will feature FLYHTStream™ implemented through both the Iridium and Inmarsat constellations, to industry committee to support the validation of rules and standards for a streaming solution to meet these new regulations. FLYHT is excited to have been chosen as the technology partner of Boeing for this activity, which we feel was precipitated by our technological maturity and intellectual property in this area.

The Inmarsat trial is a joint effort to validate their approach to the Global Aeronautical Distress and Safety System (GADSS), using the SwiftBroadband-Safety satellite communications platform (SB-S) to implement their "Black Box in the Cloud." A white paper description is found here: White paper. To better understand the possible relationship that could emerge from this trial, in section 3.5 of this paper, it states that "Inmarsat will partner with an experienced application manufacturer to implement an interface device between the SB-S satellite data unit on the aircraft and the relevant digital and analogue aircraft data sources and systems, as specified by airframe manufacturers, that formats the information, and provides it to sources such as flight data recorders." FLYHT has modified the AFIRS equipment to deliver aircraft data for streaming via an Ethernet link, and therefore we believe our equipment is a perfect answer and FLYHT is a perfect partner!

Finally, I would like to highlight the efforts we have been making to raise FLYHT's visibility in the investment community. In addition to attending several microcap conferences this year, as well as regular marketing trips, we have hired an internal resource and brought the Investor Relations function in-house as of November 1 with Ivan Peill. We believe we are at the point where we can better synergize the Investor Relations function with other business functions and ultimately would like more exposure in the U.S. equity markets. Further, we hired a very experienced Chief Financial Officer with exceptional capital market experience in Derek Payne. I believe that we are doing the right things and we will be rewarded.

Thank you for your continued support.

Thomas R Schmutz

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 November 2, 2017 and should be read in conjunction with the condensed consolidated interim financial statements of the Company as at and for three and nine months ended September 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). .It also occasionally uses certain financial measures such as working capital, modified working capital, and earnings before interest, income tax, depreciation and amortization (EBITDA), which do not have any standardized meaning as prescribed by generally accepted accounting principles ("GAAP") and therefore are considered non-GAAP financial measures. 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, income tax, 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, 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. The Company is 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™), developed and produced by FLYHT, 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 a TCCA Approved Manufacturer, an 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	A*	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)**
	A		I				A			**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 (Provisions STC has been received; in final stages before receiving a full STC), I = In Progress.

Industry Trends and Economic Factors

FLYHT examines information and data published by leading aviation associations and corporations to gain insight into the status of the aviation industry and its outlook.

The Aviation Industry in Q3 2017

The International Air Transport Association's (IATA) 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 global air transport industry.

In August, the latest period for which IATA's figures are available, global passenger traffic[1] (measured in RPKs) climbed 7.2% compared to the same period in 2016. Also during this period, domestic travel rose 7.6%, while international passenger demand increased 7.0%. In the first half of 2017, RPK increased 7.9% versus first-half 2016. In the global air freight markets, demand (measured in FTKs) grew 12.1% in August over August 2016[2]. According to IATA, demand is growing at exceptional speed when compared to the 4.4% five-year average growth rate.

During the first nine months of the year, Boeing delivered 554 commercial aircraft, down slightly from the 563 commercial aircraft delivered in the same period last year[3]. Airbus's deliveries also fell slightly, with a total of 454 commercial airplanes being delivered year to date[4]. At Embraer, commercial deliveries rose slightly to 78 aircraft. However, deliveries of executive jets fell 20% to 59 airplanes[5]. Performance results and figures from other OEMs and aviation industry organizations were not available at the time this report was published.

FLYHT's Market

FLYHT's technology is available to a number of sectors within the global aerospace industry. The Company's AFIRS product can be installed on commercial, business or military aircraft, although the latter category represents a small portion of its business currently. Additionally, a variety of FLYHT's UpTime Cloud services are available to these market segments.

FLYHT remains an industry leader in real-time data streaming technology that enhances the efficiency and safety of aircraft. The Company has focused on the development and implementation of a cloud-based UpTime software over the past two years. UpTime Cloud marks an improvement over our previous technology, with configurability pushed to the customer. The technology relies on the use of satellites for real-time communication with 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 repairs 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.

FLYHT's primary sales target has been commercial passenger and air freight transport customers, while its 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 UpTime Cloud services can be turned on immediately after delivery to the customer.

The strengthening of the Canadian dollar relative to the U.S. dollar throughout the third quarter of 2017 had a negative impact on the Company's revenue and income compared to the third quarter of 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/pressroom/pr/Pages/2017-10-05-01.aspx
[2] http://www.iata.org/pressroom/pr/Pages/2017-10-04-02.aspx
[3] http://boeing.mediaroom.com/2017-10-25-Boeing-Reports-Third-Quarter-Results-Raises-Cash-Flow-and-EPS-Guidance
[4] http://www.airbus.com/newsroom/press-releases/en/2017/10/9M2017Results.html
[5] https://daflwcl3bnxyt.cloudfront.net/m/49d90ac0232d23f2/original/3Q17-Results-Announcement-US.pdf

Contracts and Achievements of Q3 2017

Contracts

FLYHT secured a total of USD $3.1 million in sales contracts and purchase orders during the third quarter. Late in the period, we signed an agreement with Bahamasair to add AFIRS to its fleet of ATR and B737 aircraft and to provide UpTime Cloud, FLYHT's real-time data solution. Expansion of recurring revenue from the delivery of services via UpTime Cloud remains a key driver of FLYHT's growth strategy.

The sale of USD $1.4 million of AFIRS equipment to two new Chinese cargo airlines was announced in September. These sales brought to 23 the total number of FLYHT customers in China. Also during the quarter, we continued to make strides in the aircraft leasing sector, securing a second relationship in Ireland, including securing a purchase order to equip three aircraft. Elsewhere, FLYHT received additional orders from an existing OEM partner, for parts with related license fees.

Achievements

In September, FLYHT announced a flight trial with Inmarsat. The trial will demonstrate the use of FLYHT's AFIRS product to send data to our UpTime Cloud management platform via Inmarsat's secure IP broadband platform, SwiftBroadband-Safety. FLYHT will work directly with Inmarsat to install its newest technology solution on an aircraft that will test the "corner cases" for Inmarsat's "Black Box in the Cloud" capability.

In August, FLYHT announced that it will provide its AFIRS product and UpTime Cloud platform for Boeing's flight test program on a FedEx B777 aircraft. FLYHT will participate in a part of the ecoDemonstrator Program that will demonstrate Autonomous Distress Tracking and the Timely Recovery of Flight Data.

In July, FLYHT was issued an STC for the AFIRS 228 by the TCCA for Bombardier Q-400 aircraft. In the prior month an STC was revised to allow modifications on certain Airbus A320 aircraft to introduce AFIRS 228S real-time data services. FLYHT also received final approval for the activation of the TCCA STC for the E-190 Embraer Jet family. However, delays encountered in test flights have caused delays in FAA and the associated CAAC STC approvals.

Also in July, FLYHT announced that it had amended its operating demand loan with a Canadian chartered bank, to increase its borrowing availability to CAD $1.5 million from $250,000.

Results of Operations – three and nine months ended September 30, 2017 and 2016

Selected Quarterly Results (in Canadian dollars except for Gross margin %)

	Q3 2017 $	Q2 2017 $	Q1 2017 $	Q4 2016 $
Assets	6,955,314	7,710,302	7,615,545	6,516,206
Non-current financial liabilities	1,385,440	1,209,206	1,072,848	974,746
Revenue	3,322,342	3,388,030	3,729,082	4,127,827
Cost of sales	1,480,303	1,124,487	1,138,602	1,034,450
Gross margin	1,842,039	2,263,543	2,590,480	3,093,377
Gross margin %	55.4%	66.8%	69.5%	74.9%
Distribution expenses	1,166,972	1,420,236	1,195,194	1,424,211
Administration expenses	684,651	1,088,709	638,120	719,097
Research, development and certification engineering expenses	458,327	399,920	561,158	725,739
Results from operating activities	(467,911)	(645,322)	196,008	224,330
Depreciation	26,980	25,093	22,148	18,687
EBITDA*	(440,931)	(620,229)	218,156	243,017
Income (loss)	(624,425)	(724,102)	113,340	79,709
Income (loss) per share (basic & fully diluted)	(0.03)	(0.03)	0.01	0.00
	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
Gross margin	2,708,027	2,258,919	1,749,366	2,428,754
Gross margin %	66.8%	63.9%	67.0%	64.4%
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
Results from operating activities	429,531	2,793,032	(1,009,964)	(918,680)
Depreciation	16,302	15,562	16,128	15,896
EBITDA*	445,833	2,808,594	(993,836)	(902,784)
Income (loss)	303,888	2,572,061	(1,242,942)	(1,203,998)
Income (loss) per share (basic & fully diluted)	0.01	0.13	(0.07)	(0.07)
	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	672,341	562,535	637,901	849,221
Gross margin	1,847,006	1,036,068	1,932,007	1,369,460
Gross margin %	73.3%	64.8%	75.2%	61.7%
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
Results from operating activities	(540,939)	(1,633,161)	(120,523)	(1,173,954)
Depreciation	13,652	13,707	13,618	1,932
EBITDA*	(527,287)	(1,619,454)	(106,905)	(1,172,022)
Income (loss)	(683,224)	(1,943,924)	(60,414)	(1,305,712)
Income (loss) per share (basic)	(0.04)	(0.11)	(0.00)	(0.08)
Income (loss) per share (fully diluted)	(0.04)	(0.10)	(0.00)	(0.07)

*See Non-GAAP Financial Measures

Financial Position

Liquidity and Capital Resource

The Company's cash at September 30, 2017 increased to $2,573,442 from $709,958 at December 31, 2016. 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.

At September 30, 2017, the Company had working capital of $2,259,683 compared to $1,724,190 as of December 31, 2016, an increase of $535,493. Neither customer deposits, nor the current portion of unearned revenue are refundable, and if those two items are excluded from the working capital calculation, the resulting modified working capital at September 30, 2017 is positive $3,945,368 compared to positive $2,869,324 at December 31, 2016.

The Company funded Q3 2017 operations primarily through cash received from sales.

	September 30, 2017 $	December 31, 2016 $	Variance $
Cash and cash equivalents	2,573,442	709,958	1,863,484
Restricted cash	-	250,000	(250,000)
Trade and other receivables	1,420,336	2,105,385	(685,049)
Deposits and prepaid expenses	292,674	216,819	75,855
Inventory	1,379,114	1,556,794	(177,680)
Trade payables and accrued liabilities	(2,708,122)	(2,163,307)	(544,815)
Unearned revenue	(579,673)	(827,235)	247,562
Loans and borrowings	(107,993)	(97,895)	(10,098)
Finance lease obligations	-	(15,553)	15,553
Current tax liabilities	(10,095)	(10,776)	681
Working capital**	**2,259,683**	**1,724,190**	**535,493**
Unearned revenue	579,673	827,235	(247,562)
Customer deposits	1,106,012	317,899	788,113
Modified working capital**	**3,945,368**	**2,869,324**	**1,076,044**

**See Non-GAAP Financial Measures

As at November 2, 2017, FLYHT's issued and outstanding shares was 21,038,617.

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 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 liquidity requirements going forward. Q3 2017 revenue was an 18.1% decrease from Q3 2016, contributing to a loss from operating activities of $467,911; $897,442 higher than Q3 2016.

To continue as a going concern, the Company will need to achieve 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/or 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, primarily the US dollar, with respect to assets, liabilities, 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.

September 30, 2017	< 2 months $	2-12 months $	1-2 years $	2-5 years $	> 5 years $	Total $
Accounts payable	1,052,322	-	-	-	-	1,052,322
Compensation and statutory deductions	82,166	252,425	54,000	-	-	388,591
Accrued liabilities	1,943	132,191	11,658	19,430	-	165,222
Loans and borrowings	-	119,333	137,234	1,347,826	822,220	2,426,613
Total	**1,136,431**	**503,949**	**202,892**	**1,367,256**	**822,220**	**4,032,748**

Under SADI, the Company has, at September 30, 2017, an outstanding repayable balance of $1,626,814 (2016: $1,730,582), which is included under loans and borrowings in the table above. 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 (included in loans and borrowings in the table above) is repayable over five years commencing January 1, 2020. In Q3 2017, the Company received contributions totaling $291,924 under this agreement (2016: nil), bringing the 2017 YTD total received to $799,799 (2016: nil).

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

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 nine months ended September 30, 2017 and 2016. Payment was received for 8 installation kits in the third quarter of 2017 compared to 12 received in the third quarter of 2016. YTD, payment has been received for 53 installation kits, compared to 44 in 2016.

	Q3 2017 $	Q3 2016 $	Variance $	YTD 2017 $	YTD 2016 $	Variance $
Opening balance	909,318	810,234	99,084	317,899	1,020,675	(702,776)
Payments received	1,580,270	242,260	1,338,010	3,651,907	2,169,730	1,482,177
Moved to unearned revenue	(1,383,576)	(544,270)	(839,306)	(2,863,794)	(2,682,181)	(181,613)
Balance, September 30	**1,106,012**	**508,224**	**597,788**	**1,106,012**	**508,224**	**597,788**

Unearned Revenue

The chart below outlines the movement in the Company's unearned revenue throughout the three and nine months ended September 30, 2017 and 2016. Revenue was recognized for 22 installation kits in 2017's third quarter compared to 25 in the third quarter of 2016. YTD, revenue was recognized for 54 installation kits in 2017 compared to 61 in 2016. In Q3 2017, 23.1% of the unearned revenue balance at December 31, 2016 was recognized as earned revenue (Q3 2016: 44.1%).

	Q3 2017 $	Q3 2016 $	Variance $	YTD 2017 $	YTD 2016 $	Variance $
Opening balance	656,844	1,561,020	(904,176)	827,235	1,145,341	(318,106)
AFIRS sales: shipped	1,319,710	544,270	775,440	2,863,794	2,682,182	181,612
AFIRS sales: recognized	(1,392,193)	(1,353,021)	(39,172)	(3,096,717)	(3,065,738)	(30,979)
Voice and data services: recognized	(4,688)	(4,758)	70	(14,639)	(14,274)	(365)
Balance, September 30	**579,673**	**747,511**	**(167,838)**	**579,673**	**747,511**	**(167,838)**

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 the AFIRS Solution 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

	Q3 2017 $	Q3 2016 $	Variance $	YTD 2017 $	YTD 2016 $	Variance $
Voice and data services	998,337	1,122,965	(124,628)	3,311,150	3,205,397	105,753
AFIRS sales	1,392,193	1,353,021	39,172	3,097,610	3,077,201	20,409
Parts sales	863,221	1,561,816	(698,595)	3,906,541	3,716,771	189,770
Services	68,591	16,566	52,025	124,153	203,995	(79,842)
Total	**3,322,342**	**4,054,368**	**(732,026)**	**10,439,454**	**10,203,364**	**236,090**

Overall, total revenue decreased 18.1% from Q3 2017 to Q3 2016. AFIRS sales increased by 2.9% and Services revenue increased by 314.0%, while Voice and data services and Parts sales decreased by 11.1% and 44.7%, respectively.

Voice and data services revenue in Q3 2017 decreased compared to last year, due to a decreased number of aircraft producing recurring revenue, together with the lower value of the US dollar. The decrease in aircraft results from one client who had purchased FLYHT services through a third party as part of a larger contract. That larger contract is being renegotiated, and while negotiations are ongoing, the services have been suspended. Total recurring revenue accounted for 30.0% of revenue in Q3 2017 (Q3 2016: 27.7%). Recurring revenue from FLYHT's existing client base is expected to continue to expand during the remainder of 2017 and in future years.

AFIRS sales increased in Q3 2017 as compared to Q3 2016 due to a higher average price per installation kit, partially offset by a lower number of installation kits meeting the requirements for revenue recognition. Revenue was recognized for 22 installation kits in 2017's third quarter compared to 25 in the third quarter of 2016. YTD, revenue was recognized for 54 installation kits in 2017 compared to 61 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 increased in Q3 2017 compared to Q3 2016 while decreasing YTD. The variances during both periods result from differing levels of technical services provided to customers throughout 2017 and 2016, 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:

	Q3 2017 $	Q2 2017 $	Q1 2017 $	Q4 2016 $	Q3 2016 $	Q2 2016 $	Q1 2016 $	Q4 2015 $
Voice and data services	998,337	1,158,340	1,154,473	1,169,741	1,122,965	1,014,725	1,067,707	1,067,894
AFIRS sales	1,392,193	727,858	977,560	854,406	1,353,021	1,286,641	437,540	1,574,559
Parts sales	863,221	1,479,402	1,563,918	2,091,720	1,561,816	1,126,542	1,028,412	1,123,803
Services	68,591	22,430	33,131	11,960	16,566	109,757	77,672	3,011
Total	**3,322,342**	**3,388,030**	**3,729,082**	**4,127,827**	**4,054,368**	**3,537,665**	**2,611,331**	**3,769,267**

	Q3 2017 $	Q3 2016 $	YTD 2017 $	YTD 2016 $
North America	1,308,094	2,391,171	5,607,712	6,088,026
South/Central America	100,712	109,805	304,871	427,049
Africa/Middle East	142,229	261,048	775,249	976,932
Europe	102,231	118,618	249,467	254,538
Australasia	333,049	185,122	661,056	526,838
Asia	1,336,027	988,604	2,841,099	1,929,981
Total	**3,322,342**	**4,054,368**	**10,439,454**	**10,203,364**

	Q3 2017 %	Q3 2016 %	YTD 2017 %	YTD 2016 %
North America	39.4	59.0	53.8	59.6
South/Central America	3.0	2.7	2.9	4.2
Africa/Middle East	4.3	6.4	7.4	9.6
Europe	3.1	2.9	2.4	2.5
Australasia	10.0	4.6	6.3	5.2
Asia	40.2	24.4	27.2	18.9
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, data transmission costs, 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 2017 was 44.6% compared to 33.2% in 2016's third quarter. The decrease 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:

	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016	Q4 2015
Gross Margin %	55.4	66.8	69.5	74.9	66.8	63.9	67.0	64.4
Cost of Sales %	44.6	33.2	30.5	25.1	33.2	36.1	33.0	35.6

Distribution Expenses (Recovery)

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

Major Category	Q3 2017 $	Q3 2016 $	Variance $	YTD 2017 $	YTD 2016 $	Variance $
Salaries and benefits	610,387	782,493	(172,106)	1,940,731	2,276,979	(336,248)
Share based compensation	-	-	-	149,118	92,442	56,676
Contract labour	204,293	94,567	109,726	580,204	342,578	237,626
Office	111,717	98,967	12,750	327,550	320,832	6,718
Travel	163,526	133,583	29,943	475,333	422,715	52,618
Equipment and maintenance	16,390	5,142	11,248	35,591	12,392	23,199
Depreciation	8,368	10,713	(2,345)	24,060	31,516	(7,456)
Marketing	40,641	51,207	(10,566)	222,696	86,677	136,019
Other	11,650	(67,383)	79,033	25,493	(103,303)	128,796
Total	**1,166,972**	**1,109,289**	**57,683**	**3,780,776**	**3,482,828**	**297,948**

Distribution expenses increased 5.2% compared to Q3 2016 due mainly to higher costs associated with sales activities.

Salaries and benefits have decreased in 2017 primarily due to the replacement of one 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 has increased in 2017 as a result of an increased number of options granted to employees involved in distribution activities.

Travel expense has increased in the quarter and YTD to support increased sales efforts, particularly in China.

Marketing expense has increased in 2017 due to an increased attendance at industry tradeshows, the recording in May 2017 of a 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 between 2017 and 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	Q3 2017 $	Q3 2016 $	Variance $	YTD 2017 $	YTD 2016 $	Variance $
Salaries and benefits	241,801	369,996	(128,195)	1,019,827	1,161,598	(141,771)
Share based compensation	-	-	-	269,847	228,058	41,789
Contract labour	149,367	35,332	114,035	301,129	123,918	177,211
Office	78,309	72,731	5,578	223,713	209,040	14,673
Legal fees	12,480	42,206	(29,726)	56,431	147,760	(91,329)
Audit and accounting	27,375	27,375	-	141,430	99,675	41,755
Investor relations	35,501	25,821	9,680	121,788	121,812	(24)
Brokerage, stock exchange, and transfer agent fees	11,729	4,853	6,876	35,427	55,511	(20,084)
Travel	33,832	14,310	19,522	79,087	89,559	(10,472)
Equipment and maintenance	50,745	22,311	28,434	92,946	63,125	29,821
Depreciation	10,872	2,201	8,671	32,296	6,436	25,860
Other	32,640	1,627	31,013	39,185	62,067	(22,882)
Total	**684,651**	**618,763**	**65,888**	**2,413,106**	**2,368,559**	**44,547**

Administration expenses increased 10.6% compared to Q3 2016.

Contract labour expenses were higher in Q3 2017 due to fees related to professional services, deploying internal guiding principles, and the appointment of an interim CFO, partially offset by lower **Salaries and benefits** expenses.

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 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. The Q3 variance is the result of a one-time employee event held in July 2017.

Research, Development and Certification Engineering Expenses (Recovery)

Major Category	**Q3 2017 $**	**Q3 2016 $**	**Variance $**	**YTD 2017 $**	**YTD 2016 $**	**Variance $**
Salaries and benefits	494,093	309,373	184,720	1,393,833	1,094,889	298,944
Share based compensation	-	-	-	25,448	37,220	(11,772)
Contract labour	45,464	166,928	(121,464)	189,021	186,888	2,133
Office	28,861	30,692	(1,831)	78,664	78,964	(300)
Travel	(18,520)	3,924	(22,444)	71,748	42,075	29,673
Equipment and maintenance	36,992	27,324	9,668	93,060	75,742	17,318
Components	38,663	8,596	30,067	107,992	28,800	79,192
SR&ED credit	-	-	-	(116,514)	(220,214)	103,700
Depreciation	7,740	3,607	4,133	17,865	10,676	7,189
Government grants	(174,966)	-	(174,966)	(441,712)	-	(441,712)
Warranty settlement	-	-	-	-	540,450	(540,450)
Total	**458,327**	**550,444**	**(92,117)**	1,419,405	**1,875,490**	**(456,085)**

Research and Development expense was 24.3% lower YTD in 2017, compared to the prior year due mainly to a 2016 settlement of a warranty claim that did not recur in the current year, funding received from WINN 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 mainly due to differences in allocations from other cost centres to R&D.

Travel expenses increased YTD due to an increased requirement for certification test flights. The recovery in the third quarter was the result of a reclassification of first quarter installation support travel to Cost of sales to maintain reporting consistency with prior periods. 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 from WINN in 2017. The $441,712 shown is the portion of funds received that has been accounted for as a grant.

Net Finance Costs

Major Category	Q3 2017 $	Q3 2016 $	Variance $	YTD 2017 $	YTD 2016 $	Variance $
Interest (income)	(4,661)	(9,945)	5,284	(9,705)	(27,567)	17,862
Net foreign exchange loss (gain)	88,105	(3,068)	91,173	121,013	8,209	112,803
Bank service charges	7,332	6,400	932	32,700	19,441	13,259
Interest expense	58	435	(377)	617	1,647	(1,030)
Government loan accretion	63,502	44,454	19,048	166,472	131,894	34,579
Debenture interest and accretion	-	83,671	(83,671)	-	433,879	(433,879)
Debenture cost amortization	-	-	-	-	5,295	(5,295)
Net finance costs	154,336	**121,947**	**32,389**	**311,097**	**572,798**	**(261,701)**

Net foreign exchange loss (gain) includes unrealized differences arising from fluctuations in exchange rates between the date of original recognition and the reporting date, and realized differences upon settlement of assets and liabilities denominated in foreign currencies.

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

Net Income (Loss)

Major Category	Q3 2017 $	Q3 2016 $	Variance $	YTD 2017 $	YTD 2016 $	Variance $
Net income (loss)	(624,425)	303,888	(928,313)	(1,235,187)	1,633,009	(2,868,196)

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 2017, 99.4% of the Company's gross sales were made in U.S. dollars, compared to 99.1% in Q3 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 partial 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 will adopt this standard effective January 1, 2018. Evaluation of the impact of adoption continues, with identification of performance obligations a key area of focus. The Company 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. The timing of a c-check for AFIRS installation is an uncertainty 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 uncertainty by encouraging customers to install AFIRS at their aircraft's earliest availability and works with them to provide the product 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 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 when revenue is recognized, but allows the Company to receive 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 realizes a majority of its sales 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 partial 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

FLYHT appointed an interim CFO from June 5 to November 5, 2017. The services were provided by a company controlled by a director of FLYHT. No similar services were contracted during 2016. All of the transactions with the related party were at exchange amounts that approximated fair value.

	For the three months ended September 30		**For the nine months ended September 30**	
	2017	**2016**	**2017**	**2016**
Amounts included in:	**$**	**$**	**$**	**$**
Contract labour	48,800	-	64,000	-
Accounts payable and accrued liabilities	31,324	-	31,324	-

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, 2017 and 2016.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION (UNAUDITED, CANADIAN DOLLARS)

	September 30, 2017	December 31, 2016
	$	$
Assets		
Current assets		
Cash and cash equivalents	2,573,442	709,958
Restricted cash (note 5)	-	250,000
Trade and other receivables	1,420,336	2,105,385
Deposits and prepaid expenses	292,674	216,819
Inventory	1,379,114	1,556,794
Total current assets	5,665,566	4,838,956
Non-current assets		
Property and equipment	406,606	335,836
Intangible assets	34,992	34,992
Inventory	848,150	1,306,422
Total non-current assets	1,289,748	1,677,250
Total assets	**6,955,314**	**6,516,206**
Liabilities		
Current liabilities		
Trade payables and accrued liabilities	2,708,122	2,163,307
Unearned revenue	579,673	827,235
Loans and borrowings (note 8)	107,993	97,895
Finance lease obligations (note 8)	-	15,553
Current tax liabilities	10,095	10,776
Total current liabilities	3,405,883	3,114,766
Non-current liabilities		
Loans and borrowings (note 8)	1,385,440	974,746
Provisions	575,983	549,335
Total non-current liabilities	1,961,423	1,524,081
Total liabilities	**5,367,306**	**4,638,847**
Equity		
Share capital	58,355,494	57,514,646
Warrants	911,282	1,139,934
Contributed surplus	9,351,619	9,017,979
Deficit	(67,030,387)	(65,795,200)
Total equity	1,588,008	1,877,359
Total liabilities and equity	**6,955,314**	**6,516,206**

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

On behalf of the board

"Signed"
Director – Bill Tempany

"Signed"
Director – Paul Takalo

CONDENSED CONSOLIDATED INTERIM STATEMENT OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS) (UNAUDITED, CANADIAN DOLLARS)

	For the three months ended September 30		For the nine months ended September 30	
	2017	2016	2017	2016
	$	$	$	$
Revenue (note 7)	3,322,342	4,054,368	10,439,454	10,203,364
Cost of sales	1,480,303	1,346,341	3,743,392	3,487,052
Gross profit	1,842,039	2,708,027	6,696,062	6,716,312
Other income	-	-	-	3,223,166
Distribution expenses	1,166,972	1,109,289	3,780,776	3,482,828
Administration expenses	684,651	618,763	2,413,106	2,368,559
Research, development and certification engineering expenses	458,327	550,444	1,419,405	1,875,490
Results from operating activities	(467,911)	429,531	(917,225)	2,212,601
Finance income	4,661	13,014	9,705	27,567
Finance costs	158,997	134,961	320,802	600,365
Net finance costs	154,336	121,947	311,097	572,798
Income (loss) before income tax	(622,247)	307,584	(1,228,322)	1,639,803
Income tax expense	2,178	3,696	6,865	6,794
Income (loss) and comprehensive income (loss) for the period	(624,425)	303,888	(1,235,187)	1,633,009
Income (loss) per share				
Basic and diluted income (loss) per share (note 6)	(0.03)	0.01	(0.06)	0.09

See accompanying notes to the condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY (DEFICIENCY) (UNAUDITED, CANADIAN DOLLARS)

For the nine months ended September 30, 2017 and 2016

	Share Capital	Convertible Debenture	Warrants	Contributed Surplus	Deficit	Total Equity
	$	$	$	$	$	$
Balance at December 31, 2016	57,514,646	-	1,139,934	9,017,979	(65,795,200)	1,877,359
Comprehensive loss for the period	-	-	-	-	(1,235,187)	(1,235,187)
Contributions by and distributions to owners						
Share-based compensation	-	-	-	444,413	-	444,413
Share options exercised	325,665	-	-	(110,773)	-	214,892
Warrants exercised	515,183	-	(228,652)	-	-	286,531
Total contributions by and distributions to owners	840,848	-	(228,652)	333,640	-	945,836
Balance at September 30, 2017	58,355,494	-	911,282	9,351,619	(67,030,387)	1,588,008
Balance at December 31, 2015	53,895,046	222,531	-	8,439,136	(67,507,918)	(4,951,205)
Comprehensive income for the period	-	-	-	-	1,633,009	1,633,009
Contributions by and distributions to owners						
Issue of common shares	4,199,764	-	-	-	-	4,199,764
Share issue costs	(345,081)	-	-	-	-	(345,081)
Share-based compensation	-	-	-	357,720	-	357,720
Share options exercised	1,746	-	-	(596)	-	1,150
Warrants issued	(379,778)	-	1,266,527	-	-	886,749
Total contributions by and distributions to owners	3,476,651	-	1,266,527	357,124	-	5,100,302
Balance at September 30, 2016	57,371,697	222,531	1,266,527	8,796,260	(65,874,909)	1,782,106

See accompanying notes to the condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS (UNAUDITED, CANADIAN DOLLARS)

	For the nine months ended September 30 2017 $	2016 $
Cash flows from operating activities		
Income (loss) for the period	(1,235,187)	1,633,009
Depreciation – property plant and equipment	74,220	47,992
Convertible debenture accretion	-	433,879
Payment of debenture interest	-	(146,721)
Amortization of debenture issue costs	-	5,295
Grant portion of contributions from WINN (note 8)	(441,712)	-
Government loan accretion	166,472	131,894
Equity-settled share-based compensation	444,413	357,720
Change in inventories	635,952	(171,693)
Change in trade and other receivables	577,172	(579,467)
Change in prepayments	(75,855)	(320,679)
Change in trade and other payables	592,049	(739,483)
Change in provisions	26,604	146,876
Change in unearned revenue	(247,562)	(397,831)
Unrealized foreign exchange	156,696	66,981
Interest expense	617	1,647
Interest paid	(617)	(1,992)
Interest income	(9,705)	(27,567)
Interest received	9,705	27,567
Income tax expense	6,865	6,794
Income tax paid	(7,502)	(4,916)
Net cash from operating activities	672,625	469,305
Cash flows from (used in) investing activities		
Release of GIC as security (note 5)	250,000	-
Acquisitions of property and equipment	(144,990)	(152,914)
Net cash from (used in) investing activities	105,010	(152,914)
Cash flows from financing activities		
Share issue costs	-	(345,081)
Repayment of debenture	-	(2,321,000)
Proceeds from issue of shares and warrants	-	5,086,513
Proceeds from exercise of share options and warrants	501,423	1,150
Contributions from WINN (note 8)	799,799	-
Repayment of borrowings (note 8)	(103,767)	(90,234)
Payment of finance lease liabilities (note 8)	(15,553)	(20,744)
Net cash from financing activities	1,181,902	2,310,604
Net increase in cash and cash equivalents	1,959,537	2,626,995
Cash and cash equivalents, beginning of period	709,958	1,301,955
Effect of exchange rate fluctuations on cash and cash equivalents held	(96,053)	(113,897)
Cash and cash equivalents, end of period	2,573,442	3,815,053

See accompanying notes to condensed consolidated interim financial statements.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED, CANADIAN DOLLARS)

1. Reporting entity

FLYHT Aerospace Solutions Ltd. (the "**Company**" or "**FLYHT**") was founded in 1998 under the name AeroMechanical Services Ltd. FLYHT is a public company incorporated under the Canada Business Corporations Act, and is domiciled in Canada. The Company has been listed on the TSX Venture Exchange since March 2003, first as TSX.V: AMA and as TSX.V: FLY since 2012 and has been listed on the OTCQX marketplace since June 2014 as OTCQX: FLYLF. The Company's head office is located at 300E, 1144 – 29th Avenue NE, Calgary, Alberta T2E 7P1.

The condensed consolidated interim financial statements of the Company as at and for the three and nine months ended September 30, 2017 and 2016 consist of the Company and its subsidiaries.

FLYHT's mission is to improve aviation safety, efficiency and profitability. 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.

2. Basis of preparation

(a) Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 – Interim Financial Reporting. They do not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Company as at and for the year ended December 31, 2016. These condensed consolidated interim financial statements were approved by the Board of Directors on November 2, 2017.

(b) Basis of measurement

These condensed consolidated interim financial statements have been prepared on a historical cost basis except for financial instruments at fair value through profit or loss, which are measured at fair value in the statement of financial position.

(c) Functional and presentation currency

These condensed consolidated interim financial statements are presented in Canadian dollars, which is the Company's functional currency.

(d) Going concern

These condensed consolidated interim financial statements have been prepared on the basis that the Company will continue to realize its assets and meet its obligations in the ordinary course of business. As at September 30, 2017, the Company had working capital of $2,259,683 and an accumulated deficit of $67,030,387. For the nine months ended September 30, 2017 the Company reported a net loss of $1,235,187 and cash flow from operating activities of $672,625.

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 liquidity requirements going forward. Q3 2017 revenue was an 18.1% decrease from Q3 2016, contributing to a loss from operating activities of $467,911; $897,442 higher than Q3 2016.

For the Company to continue as a going concern longer-term, it will need to achieve profitability and may require 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/or 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.

There is no assurance that the Company will be successful in attaining and sustaining profitable operations and cash flow or raising additional capital to meet its working capital requirements. If the Company is unable to satisfy its working capital requirements from these sources, the Company's ability to continue as a going concern and to achieve its intended business objectives will be adversely affected. These condensed consolidated interim financial statements do not reflect adjustments that would otherwise be necessary if the going concern assumption was not valid, such as revaluation to liquidation values and reclassification of statement of financial position items.

3. Significant accounting policies

The accounting policies set out in note 3 of FLYHT's December 31, 2016 consolidated financial statements have been applied consistently to all periods presented in these condensed consolidated interim financial statements, unless otherwise indicated. These accounting policies have also been applied consistently by FLYHT's subsidiaries. The requirements of IAS 7 have been adopted.

Effective January 1, 2017, the Company adopted the amendments of IAS 7 – Statement of Cash Flows (Amendment). The objective of this amendment is to improve disclosures of changes in financing liabilities to allow users of the financial statements to evaluate changes in liabilities arising from financing activities. The IAS 7 amendment is effective for annual periods beginning on or after January 1, 2017 and the resulting disclosure is presented in note 8. Comparative information has not been presented.

4. Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods.

(a) Share based payment transactions: measured using the Black-Scholes option pricing model;

(b) Loans and borrowings: for measurement purposes, fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the inception of the loan.

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

5. Loans & borrowings

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.

6. Earnings per share

Basic earnings per share

The calculation of basic and diluted earnings per share for the quarter ended September 30, 2017 was based on a weighted average number of common shares outstanding of 20,864,834 (basic) and 20,915,561 (diluted) (Q3 2016: basic 20,739,377 and diluted 20,803,634). The calculation of diluted earnings per share did not include stock options of 1,073,192 (Q3 2016: 1,062,044), warrants of 1,709,979 (Q3 2016: 1,953,529) and convertible debentures of nil (Q3 2016: 1,215,600) because they would be anti-dilutive.

7. Operating segments

The Company has one operating segment. The following revenue is based on the geographical location of customers. All non-current assets reside in Canada.

	For the three months ended September 30		For the nine months ended September 30	
	2017 $	2016 $	2017 $	2016 $
North America	1,308,094	2,391,171	5,607,712	6,088,026
South / Central America	100,712	109,805	304,871	427,049
Africa / Middle East	142,229	261,048	775,249	976,932
Europe	102,231	118,618	249,467	254,538
Australasia	333,049	185,122	661,056	526,838
Asia	1,336,027	988,604	2,841,099	1,929,981
Total	**3,322,342**	**4,054,368**	**10,439,454**	**10,203,364**

Major customers

Revenues from the three largest customers represent approximately 39.9% and 43.4% for the three and nine months ended September 30, 2017, respectively (Q3 2016: 49.3%; 2016: 76.4%)

8. Cash flow movement of liabilities arising from financing activities

	Loans and borrowings			Finance lease obligations
	SADI	WINN	Total	Total
As at January 1, 2017	1,072,641	-	1,072,641	15,553
Contributions	-	799,799	799,799	-
Repayments	(103,767)	-	(103,767)	(15,553)
Grant portion of contributions	-	(441,712)	(441,712)	-
Loan accretion	143,392	23,080	166,472	-
As at September 30, 2017	1,112,266	381,167	1,493,433	-
Less current portion	107,993	-	107,993	-
Non-current portion	1,004,273	381,167	1,385,440	-

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 Q3 2017, the Company received contributions totaling $291,924 under this agreement (2016: nil), bringing the 2017 YTD total received to $799,799 (2016: nil).

9. Related parties

FLYHT appointed an interim CFO from June 5 to November 5, 2017. The services were provided by a company controlled by a director of FLYHT. No similar services were contracted during 2016. All of the transactions with the related party were at exchange amounts that approximated fair value.

	For the three months ended September 30		For the nine months ended September 30	
Amounts included in:	2017 $	2016 $	2017 $	2016 $
Contract labour	48,800	-	64,000	-
Accounts payable and accrued liabilities	31,324	-	31,324	-

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.

CORPORATE INFORMATION

Registrar and Transfer Agent
Computershare Trust Company of Canada
Telephone: 1-403-267-6800
Online: Investor Centre – contact us section
www.computershare.com

Share Listing
Shares are traded on the TSX Venture Exchange and the OTCQX Marketplace
Ticker Symbols: TSX.V: FLY and OTCQX: FLYLF

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Directors

Bill Tempany	Chairman, FLYHT Aerospace Solutions Ltd.
John Belcher	Former Chairman and Chief Executive Officer, ARINC Inc.
Mike Brown	Partner, Geselbracht Brown
Barry Eccleston	President, Airbus Americas, Inc.
Jacques Kavafian	Director
Doug Marlin	President, Marlin Ventures Ltd.
Jack Olcott	President, General Aero Company
Mark Rosenker	United States Air Force (retired)
Paul Takalo	Director

Officers

Thomas R. Schmutz	Chief Executive Officer
Paul Takalo	Interim Chief Financial Officer
Derek Payne, CPA, CA	Chief Financial Officer (effective November 6, 2017)
Derek Graham	Chief Technical Officer
David Perez	Vice President Sales and Marketing
Matieu Plamondon	Vice President Operations and Customer Fulfillment

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KPMG LLP — Calgary, Alberta

Legal Counsel
Chris Croteau — Tingle Merrett LLP, Calgary, Alberta

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