

MANAGEMENT DISCUSSION AND ANALYSIS
FLYHT AEROSPACE SOLUTIONS LTD.

2017



FLYHT[™]
INSIGHT • ACTION • CONTROL

LETTER TO SHAREHOLDERS



In 2017, FLYHT took steps to prepare for future growth and establish strategic partnerships with large industry players. FLYHT saw growth in the backlog of Automated Flight Information Reporting System (AFIRS™) kits and services and this resulted in a 25% increase of shipments in 2017. FLYHT reorganized both our facility and our team. Looking toward 2018, we have continuing trials with Boeing and Inmarsat and actively pursue partnerships with Original Equipment Manufacturers (OEMs), which we feel will lead to revenue growth and improved financial performance.

Financially, FLYHT's revenues for 2017 were within 2% of what the Company posted in 2016 despite being significantly lower in the Parts revenue category. This category includes revenues from spare parts, but the largest component is the license fees that FLYHT receives from the OEM shipment of AFIRS units to the A320/A330 production line. Overall, Parts revenue was down 15% compared to last year, but this decline was largely offset by an increase in AFIRS hardware revenue of 17% over 2016. In fact, quarterly AFIRS hardware revenue was up significantly, with an increase of 76% more than in Q4 2016! We finished the year on a positive note with the shipment of 19 AFIRS units in December and 90 units for the year, which represents an increase of 25% over the prior year.

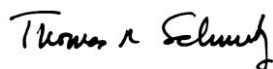
FLYHT has been expecting the revenue for AFIRS hardware to increase due to the significant backlog that the Company has been building these past three years. Since airlines normally install AFIRS during a regularly scheduled "C Check", a 20 to 24-month (or after a specified number of flight hours) maintenance check, it can take some time to equip a fleet because the fleet operator must cycle their equipment through the check. FLYHT's backlog of undelivered AFIRS hardware and contracted, but undelivered recurring data services had grown to over \$27M at the end of 2017. FLYHT invested in the shipping/receiving/kitting area of the Calgary facility in October 2017 and tripled its size because we anticipated an increase in AFIRS hardware shipments based upon this growing sales backlog. The resulting facility will accommodate much higher volumes of AFIRS kit shipments than we were able to accomplish within the previous area. This made shipping during the fourth quarter, our second highest AFIRS hardware revenue quarter in history, much more efficient for the operations team.

FLYHT made important organizational changes in 2017. In the second half of the year, we reorganized the day-to-day operations including procurement/manufacturing, account management, customer and aircraft certification engineering, and software development teams into an organization run by the COO, Matieu Plamondon. This allowed FLYHT to create a Strategic Product Management team led by our CTO, Derek Graham. This was necessary to address the strategic opportunities from Boeing and Inmarsat that were announced in the year. The Strategic Product Management team also helps FLYHT plan and execute our next generation products, which we will begin investing in this year, to enhance our unique position in the industry as the leading provider of real-time data streaming technology. As part of this reorganization, we also converted several contractor positions to in-house staff and grew the sales team modestly to be better prepared as a Company for future opportunities. FLYHT hired industry veteran Steve Newell as VP Business Development to help mature new opportunities with OEMs, airframers and other technology partners so that we could focus our VP Sales and Marketing, David Perez and his sales team on selling AFIRS and UpTime™ voice and data services to airlines and lessors.

While we fell short of our financial targets in 2017, we did have several accomplishments. We signed a contract with Azur in the Middle East, Bahamasair in the Bahamas, an airline in South Korea, a military logistics company and an aircraft lessor. In addition, FLYHT signed contracts with four new Chinese carriers, bringing the number of carriers we serve in China to 23. We also accomplished AS9100C quality registration and revised processes and procedures for the AS9100D transition audit in January. In 2017, the Company also received an important patent from the United States Patent and Trademark Office for FLYHT's emergency data streaming technology which has been initially enabled in a commercial software product called FLYHTStream™. This patent has also been issued in China and is pending in several other countries. This intellectual property can form the basis for industry to meet the "Timely Access to Flight Data" requirements which are levied upon the industry by the International Civil Aviation Organization (ICAO) for new aircraft in 2021. Several of our trials are designed to validate that FLYHT's solution will satisfy this mandate, which is intended to overcome the problems associated with no access to flight data, such as the tragic loss of Malaysian Air MH370 or the two year wait to access it, as evidenced by Air France AF447. FLYHT added many Supplemental Type Certificates during the year, increasing this valuable library to more than 90 entries.

FLYHT is focused on multiple initiatives in 2018. These include the fantastic opportunity to participate as a partner on the Boeing ecoDemonstrator Program where we are demonstrating state-of-the-art aircraft tracking, locating and data recovery technologies using our AFIRS and UpTime™ Cloud. We are excited to be the only Company chosen to demonstrate these capabilities for the program. Similarly, we have announced a trial partnership with Inmarsat, the largest provider of aviation flight-deck Satcom bandwidth, to help them achieve their “Black Box in the Cloud” vision of always-on streaming in the Swiftbroadband-Safety spectrum. We are pursuing other trials where we are working closely with the airlines to tailor our system to solve specific problems and we are integrating our solution with technology from other OEM equipment providers which we believe will bring increased value to our combined solutions.

I feel very excited about the prospects for the Company as we move into 2018. We have an excellent team that is focused on meaningful opportunities. Thank you for your continued support of FLYHT!



Thomas R. Schmutz
Chief Executive Officer

MANAGEMENT DISCUSSION & ANALYSIS

This management discussion and analysis (“MD&A”) is as of April 10, 2018 and should be read in conjunction with the audited annual consolidated financial statements of FLYHT Aerospace Solutions Ltd. (“FLYHT” or the “Company”) as at and for the years ended December 31, 2017 and 2016 and the accompanying notes. Additional information with respect to FLYHT can be found on SEDAR at www.sedar.com. The Company has prepared its December 31, 2017 consolidated financial statements and the notes thereto in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”). The Company’s accounting policies are provided in note 3 to the consolidated financial statements.

Non-GAAP Financial Measures

The Company reports its financial results in accordance with International Financial Reporting Standards (IFRS) or Generally Accepted Accounting Principles (GAAP). It also occasionally uses certain non-GAAP financial measures, such as working capital, modified working capital, 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, deposits and prepaid expenses, and the current portion of unearned revenue net of installations in progress. 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, 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. 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 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 and flight tracking 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 of AFIRS 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 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 is happening onboard the aircraft. FLYHT received a U.S. patent for the 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.

FLYHTMai™

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 is currently pursuing STC validations from the SAAU and the HKCAD.

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
			I							Airbus A300
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	A	A	A		A	Boeing B737 -300, -400, -500
A		A		A		A				Boeing B737 -600
A	A	A	A	A	A	A	A		A	Boeing B737 -700, -800
			A				I			Boeing B737 -900ER
	A						I			Boeing 747-200
A	A	A	A	A	A	A	A			Boeing 757 -200
A	A	A	A	A	A	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			A			Bombardier CRJ 100, 200, 440
	A		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

Chart Legend: 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.

FLYHT has also received an approved AFIRS 228 STC for the Bombardier CRJ- 700, 900 from the DGAC. FLYHT has AFIRS 228 applications in progress with SAAU for B737-300, -400, -500 and B737-700, -800 aircraft. An AFIRS 228 application is also in progress with HKCAD for the Airbus A319, A320 and A321.

Trends and Economic Factors

FLYHT examines the communications issued by leading aviation associations and corporations in order to gain insight on the status of the industry.

The Aviation Industry in 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 industry. Passenger traffic (measured in RPK) saw a 7.6% increase in 2017 compared to the previous year. 2017 results were also ahead of the ten-year average growth rate of 5.5%¹. All regions, outside of the Middle East, saw demand growth in International passenger traffic, and load factors that measure the capacity utilization of flights were at a record annual high of 81.4%. Demand in domestic markets at 7.0% was slightly lower than international travel at 7.9%². Global freight traffic (measured in FTK) increased by 9.0% in 2017, which more than doubled the industry's 3.6% annual growth in 2016 and is the strongest growth since 2010³. All regions experienced positive freight growth. African airlines topped the regions with growth of 25.2% in 2017, followed by Europe, with an increase of 11.9%⁴.

Results from large commercial aircraft manufacturers were mostly to the upside in 2017 and their order backlog numbers remain high. Airbus continued its growth with a new record for aircraft deliveries of 718 aircraft for 85 customers, an increase from last year's record 688 aircraft to 82 customers⁵. At the end of 2017, Airbus' overall backlog stood at 7,265 aircraft valued at US \$1.059 trillion at list prices. Airbus achieved milestone deliveries in the year and opened the new A330 Completion and Delivery Centre in Tianjin, China⁶. Boeing's deliveries increased to 763 aircraft in 2017 from 748 in 2016⁷. Boeing published their backlog at the end of 2017 at 5,800 commercial aircraft. This backlog represents orders of nearly US \$421 billion⁸. Embraer saw a decline in deliveries from 2016 and delivered a total of 101 commercial and 109 executive jets (72 light and 37 large) in 2017⁹. The manufacturer has a backlog of US \$18.3 billion. Bombardier delivered less aircraft than the previous year, a total of 213 business and commercial jets compared to 249 aircraft in 2016, though they were in line with the guidance they provided for the year. Bombardier's backlog at the end of 2017 is \$14 billion in business jets and 433 commercial aircraft¹⁰.

The General Aviation Manufacturers Association (GAMA) reported that numbers in worldwide general aviation airplane shipments in 2017 increased 2.5% to 2,324 compared to 2,268 in 2016¹¹.

Future Industry Projections

According to IATA's 2018 outlook¹², the global aviation industry is continuing to grow and is expected to retain USD \$8.9 for every passenger carried in 2018. IATA reports that the industry is expected to add 1,683 new aircraft in 2018, expanding the global commercial fleet to 30,000 aircraft. Margins remain tight for airlines on their route to profitability depending on the regions they operate in. African, Middle Eastern and Latin American carriers remain close to or below break-even (many airlines are at a loss) while airline profits in North America are significantly ahead of other regions.

The world's two largest airplane manufacturers, Boeing and Airbus, forecast robust demand to continue over the next twenty years. Boeing increased their prediction about new aircraft from last year's outlook to a total need of 41,030 new aircraft worth US \$6.1 trillion¹³ and Airbus' states the demand for 34,900 aircraft worth US \$5.3 trillion¹⁴. The Asia-Pacific region, which includes India, China and Oceania is expected to become the world's leading travel market, growing 5.7% annually by 2036 and will constitute nearly 40% of global passenger traffic, with China needing 5,420 new widebody aircraft and 940 single-aisle airplanes¹⁵. China is expected to become the largest domestic air travel market, surpassing North America because of the increased growth of the middle class.

¹ <http://www.iata.org/pressroom/pr/Pages/2018-02-01-01.aspx>

² <http://www.iata.org/publications/economics/Reports/pax-monthly-analysis/passenger-analysis-dec-2017.pdf>

³ <http://www.iata.org/pressroom/pr/Pages/2018-01-31-01.aspx>

⁴ <http://www.iata.org/publications/economics/Reports/freight-monthly-analysis/freight-analysis-dec-2017.pdf>

⁵ <http://www.airbus.com/newsroom/press-releases/en/2018/01/airbus-commercial-aircraft-delivers-record-performance.html>

⁶ <http://www.airbus.com/newsroom/press-releases/en/2018/01/airbus-commercial-aircraft-delivers-record-performance.html>

⁷ <http://boeing.mediaroom.com/2018-01-31-Boeing-Reports-Record-2017-Results-and-Provides-2018-Guidance>

⁸ <http://boeing.mediaroom.com/2018-01-31-Boeing-Reports-Record-2017-Results-and-Provides-2018-Guidance>

⁹ <https://dafwcl3bnxyt.cloudfront.net/m/4155bb8e78b3e665/original/4Q17-Deliveries-Announcement-US.pdf>

¹⁰ <https://www.bombardier.com/en/media/newsList/details.binc-20180215-bombardier-reports-fourth-quarter-and-full-year-20.bombardiercom.html>

¹¹ <https://gama.aero/news-and-events/press-releases/gama-presents-2017-year-end-aircraft-shipment-and-billings-numbers-at-annual-press-conference/>

¹² <http://www.iata.org/publications/economics/Reports/Industry-Econ-Performance/IATA-Economic-Performance-of-the-Industry-end-year-2017-report.pdf>

¹³ <http://www.boeing.com/resources/boeingdotcom/commercial/market/current-market-outlook-2017/assets/downloads/cmo-2018-01-26.pdf>

¹⁴ <http://www.airbus.com/aircraft/market/global-market-forecast.html>

¹⁵ <http://www.boeing.com/resources/boeingdotcom/commercial/market/current-market-outlook-2017/assets/downloads/cmo-2018-01-26.pdf>

With the growth in the industry, the aviation market increases its reliance on satellites for safety and operations as well as cockpit communications. According to Euroconsult, a global consulting and research firm, the biggest use of satellites is for communications and is continuing to grow¹⁶. They increased their forecast from last year's predictions of the launch of 1,450 satellites between 2016 and 2025, and a market of US \$250 billion¹⁷ to 3,000 satellites with a market of US \$304 billion.¹⁸

Regulatory Drivers

The International Civil Aviation Organization (ICAO) adopted new amendments to Annex 6 (Operation of Aircraft) that will take effect by 2021. These are applicable to FLYHT because they encompass services that we currently offer. Amendment 39 for Normal Aircraft Tracking makes an aircraft operator responsible for tracking its aircraft in its area of operations with a tracking time interval of 15 minutes, applicable on November 1, 2018 to specific classes of aircraft. Amendment 40 for Autonomous Distress Tracking (ADT) requires aircraft to carry an ADT device that can autonomously transmit location information at least once every minute in distress circumstances. The ADT amendment will come into effect on newly manufactured aircraft starting January 1, 2021. Amendment 40 is the Timely Access to Flight Data Recorder Information and requires aircraft to be equipped with a means to have flight recorder data recovered and available in a timely manner.

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 current business. In addition, FLYHT's UpTime Cloud services are available to these market segments. The technology relies on the use of satellites for real-time communication with aircraft.

FLYHT remains an industry leader in real-time data streaming technology that enhances the efficiency and safety of aircraft. The Company focused on the development and launch 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 and the ability to scale-up and increase the number of customers using the platform. FLYHT will continue to add functions and features to improve UpTime Cloud capabilities. Such features detect and notify the airline of 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 also focused on industry trials in 2017. The Company developed its technology to stream data over the Inmarsat Satellite network for trials with Boeing and Inmarsat.

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 through OEM partnerships, 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 2017 had a negative impact on the Company's revenue and income compared to 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 partial natural hedge exists against fluctuations of the Canadian dollar.

Contracts and Achievements of Fiscal 2017

Contracts

In January, FLYHT announced a contract with an existing customer in the People's Republic of China (China) for AFIRS 228 valued at USD \$1.3 million.

In March, FLYHT announced a new commercial airline customer in China for AFIRS 228 hardware, valued at USD \$1.68 million.

¹⁶ <http://www.euroconsult-ec.com/research/satellite-value-chain-2016-extract.pdf>

¹⁷ http://www.euroconsult-ec.com/13_September_2016

¹⁸ http://www.euroconsult-ec.com/11_October_2017

In March, FLYHT announced customer and parts sales activity in the first quarter of 2017 including USD \$1.5 million of parts to an existing OEM partner. One new and seven current customers signed AFIRS 228 units and/or voice and data services for a total of USD \$1.5 million.

In April, FLYHT announced the sale of AFIRS hardware to a new commercial airline customer in China, valued at USD \$1.9 million.

In June, FLYHT announced updates to customer and parts sales activity for the second quarter of 2017. FLYHT received parts orders of USD \$2.2 million from an existing OEM partner. Seven current customers signed contracts for additional AFIRS 228 hardware and/or voice and data services for a total of USD \$833,000.

In September, FLYHT announced the sale of AFIRS to two new commercial cargo customers in China, valued at USD \$1.4 million.

In October, FLYHT announced updates to customer and parts sales activity in the third quarter of 2017 with an addition of USD \$1.7 million in contracts and purchase orders.

In October, FLYHT announced a sale of AFIRS and FLYHTLog services to Azur Havacilik (Azur Aviation), based in Antalya, Turkey for USD \$2.1 million.

At the end of the year, FLYHT announced an addition of USD \$555,000 in new sales contracts and purchase orders during the fourth quarter of 2017.

Achievements

In March, FLYHT announced the official launch of its UpTime Cloud software. The UpTime Cloud web portal improves the Company's software usability, while providing enhancements to security and infrastructure.

In the first quarter, FLYHT was awarded STCs for the AFIRS 228 by the FAA for MD82/83 aircraft and from the CAAC for the Boeing 757.

In June, FLYHT announced the receipt of a patent from the United States Patent and Trademark Office for FLYHTStream.

In the second quarter, FLYHT was awarded an AFIRS 228 STC by CAAC for Boeing 737-300/400/500 aircraft.

In July, FLYHT announced it had amended its operating demand loan ("Line of Credit") with a Canadian chartered bank to increase borrowing availability to CAD \$1.5 million.

In July, FLYHT announced the TSX Venture Exchange approved a consolidation of its common shares on a 10 to 1 basis. The Consolidation took effect July 17, 2017.

In August, FLYHT announced its participation in the Boeing ecoDemonstrator Program. The Program is designed to collect data and produce test reports that are necessary to demonstrate Autonomous Distress Tracking and the Timely Recovery of Flight Data. FLYHT's portion of the project is expected to be complete in 2018.

In September, FLYHT announced a flight trial with Inmarsat to demonstrate the use of AFIRS to send data to the UpTime Cloud management platform via Inmarsat's secure IP broadband platform, SwiftBroadband-Safety (SB-S).

In the third quarter, FLYHT was issued a TCCA STC for AFIRS 228 for the Bombardier Q-400 and revised a TCCA STC in August to allow for modifications on A320 aircraft to introduce AFIRS 228S real-time data services. FLYHT also received the final approval for activation of the TCCA STC for the E-190 Embraer Jet family.

In November, FLYHT appointed Matieu Plamondon as Chief Operating Officer.

In the fourth quarter, FLYHT was issued the CAAC STC for the E-190 Embraer Jet family.

Results of Operations – Years Ended December 31, 2017, 2016 and 2015

Selected Results

2017	Q4 \$	Q3 \$	Q2 \$	Q1 \$	Total \$
Assets	7,148,847	6,955,314	7,710,302	7,615,545	7,148,847
Non-current financial liabilities	1,842,439	1,385,440	1,209,206	1,072,848	1,842,439
Revenue	3,579,296	3,322,342	3,388,030	3,729,082	14,018,750
Cost of sales	1,029,288	1,480,303	1,124,487	1,138,602	4,772,680
Gross margin	2,550,008	1,842,039	2,263,543	2,590,480	9,246,070
Gross margin %	71.0%	55.4%	66.8%	69.5%	66.0%
Distribution expenses	1,170,695	1,166,972	1,418,610	1,195,194	4,951,471
Administration expenses	745,423	684,651	1,090,335	638,120	3,158,529
Research, development and certification engineering expenses	1,099,869	458,327	399,920	561,158	2,519,274
Results from operating activities	(465,979)	(467,911)	(645,322)	196,008	(1,383,204)
Depreciation	69,272	26,980	25,093	22,148	143,493
EBITDA*	(396,707)	(440,931)	(620,229)	218,156	(1,239,711)
Income (loss)	(520,428)	(624,425)	(724,102)	113,340	(1,755,615)
Income (loss) per share (basic)	(0.02)	(0.03)	(0.03)	0.01	(0.08)
Income (loss) per share (fully diluted)	(0.02)	(0.03)	(0.03)	0.01	(0.08)
2016	Q4 \$	Q3 \$	Q2 \$	Q1 \$	Total \$
Assets	6,516,206	9,189,104	9,655,504	5,803,079	6,516,206
Non-current financial liabilities	974,749	996,121	1,002,872	602,011	974,749
Revenue	4,127,827	4,054,368	3,537,665	2,611,331	14,331,191
Cost of sales	1,034,450	1,346,341	1,278,746	861,965	4,521,502
Gross margin	3,093,377	2,708,027	2,258,919	1,749,366	9,809,689
Gross margin %	74.9%	66.8%	63.9%	67.0%	68.4%
Distribution expenses	1,424,211	1,101,318	1,248,783	1,132,727	4,907,039
Administration expenses	719,097	626,733	1,103,399	638,427	3,087,656
Research, development and certification engineering expenses	725,739	550,443	336,871	988,176	2,601,229
Income (loss) from operating activities	224,330	429,533	2,793,032	(1,009,964)	2,436,931
Depreciation	18,687	16,302	15,562	16,128	66,679
EBITDA*	243,017	445,835	2,808,594	(993,836)	2,503,610
Income (loss)	79,709	303,890	2,572,061	(1,242,942)	1,712,718
Income (loss) per share (basic)	0.00	0.01	0.13	(0.07)	0.09
Income (loss) per share (fully diluted)	0.00	0.01	0.13	(0.07)	0.09
2015	Q4 \$	Q3 \$	Q2 \$	Q1 \$	Total \$
Assets	5,478,867	6,140,675	6,344,752	7,752,509	5,478,867
Non-current financial liabilities	390,110	3,267,030	3,053,577	5,407,303	390,110
Revenue	3,769,267	2,519,347	1,598,603	2,569,908	10,457,125
Cost of sales	1,340,513	672,341	562,535	637,901	3,213,290
Gross margin	2,428,754	1,847,006	1,036,068	1,932,007	7,243,835
Gross margin %	64.4%	73.3%	64.8%	75.2%	69.3%
Distribution expenses	1,084,443	1,142,086	987,330	763,774	3,977,633
Administration expenses	1,573,796	607,755	943,931	551,471	3,676,953
Research, development and certification engineering expenses	689,195	638,104	737,968	737,285	2,802,552
Loss from operating activities	(918,680)	(540,939)	(1,633,161)	(120,523)	(3,213,303)
Depreciation	15,896	13,652	13,707	13,618	56,873
EBITDA*	(902,784)	(527,287)	(1,619,454)	(106,905)	(3,156,430)
Loss	(1,203,998)	(683,224)	(1,943,924)	(60,414)	(3,891,560)
(Loss) per share (basic)	(0.07)	(0.04)	(0.11)	(0.00)	(0.23)
(Loss) per share (fully diluted)	(0.07)	(0.04)	(0.11)	(0.00)	(0.23)

*See Non-GAAP Financial Measures

Weighted Average Shares Outstanding

	2017 \$	2016 \$	2015 \$
Basic	20,926,589	19,507,065	17,242,349
Diluted	20,926,589	19,541,957	17,242,349

Financial Position

Liquidity and Capital Resource

The Company's cash at December 31, 2017 increased to \$2,014,135 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. This facility was undrawn as at December 31, 2017. The operating demand loan bears interest at the 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 December 31, 2017, the Company had positive working capital of \$1,761,003 compared to positive \$1,724,190 as of December 31, 2016, an increase of \$36,813. When non-refundable items (customer deposits, deposits and prepaid expenses, and the current portion of unearned revenue net of installations in progress) are excluded from the working capital calculation, the resulting modified working capital at December 31, 2017 would be positive \$3,239,928 compared to positive \$2,185,016 at December 31, 2016.

The Company funded 2017 operations primarily through cash received from sales, contributions from the Western Innovation Initiative (WINN), and proceeds from exercised share options and warrants. The Company will continue to strive to self-fund operations through 2018.

	2017 \$	2016 \$	Variance \$
Cash and cash equivalents	2,014,135	709,958	1,304,177
Restricted cash	-	250,000	(250,000)
Trade and other receivables	1,887,251	2,105,385	(218,134)
Deposits and prepaid expenses	391,191	216,819	174,372
Inventory	1,563,558	1,556,794	6,764
Trade payables and accrued liabilities	(1,868,563)	(1,845,408)	(23,155)
Customer deposits	(1,687,971)	(317,899)	(1,370,072)
Unearned revenue	(413,809)	(827,235)	413,426
Loans and borrowings	(112,578)	(97,895)	(14,683)
Finance lease obligations	-	(15,553)	15,553
Current tax liabilities	(12,211)	(10,776)	(1,435)
Working capital	1,761,003	1,724,190	36,813
Unearned revenue	413,809	827,235	(413,426)
Installations in progress	(231,664)	(467,489)	235,825
Deposits and prepaid expenses	(391,191)	(216,819)	(174,372)
Customer deposits	1,687,971	317,899	1,370,072
Modified working capital*	3,239,928	2,185,016	1,054,912

*See Non-GAAP Financial Measures

In 2017 option and warrant exercises resulted in the Company issuing a total of 314,451 shares for total proceeds of \$538,423 including:

	Quantity	Price \$	Proceeds \$
Share options	22,500	1.65	37,125
Share options	20,000	1.85	37,000
Share options	30,930	1.90	58,767
Share options	20,000	2.20	44,000
Share options	30,000	2.50	75,000
Warrants	191,021	1.50	286,531
Total	314,451		538,423

As at April 10, 2018 FLYHT's issued and outstanding share capital was 21,058,617.

The consistent achievement of positive earnings is necessary before the Company can consistently 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. 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.

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 do not improve, 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. 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 consolidated 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.

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 may be 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.

December 31, 2017	< 2 months \$	2-12 months \$	1-2 years \$	2-5 years \$	> 5 years \$	Total \$
Accounts payable	1,340,510	-	-	-	-	1,340,510
Compensation and statutory deductions	46,763	274,647	27,000	-	-	348,410
Accrued liabilities	37,990	113,479	11,658	16,516	-	179,643
Loans and borrowings	-	119,333	137,234	1,628,685	822,220	2,707,472
Total	1,425,263	507,459	175,892	1,645,201	822,220	4,576,035

Operating lease rentals are payable as follows:

	Premises
	\$
2018	462,678
2019	462,678
2020	462,678
2021	77,113
Total	1,465,147

Under the Strategic Aerospace and Defence Initiative (SADI), the Company has, at December 31, 2017, an outstanding repayable balance of \$1,626,814, compared to \$1,730,582 at December 31, 2016. 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. The repayment in 2017 was \$103,767 (2016: \$90,234).

On November 9, 2016, the Company signed a contribution agreement with Western Economic Diversification Canada for a Western Innovation initiative (WINN) loan to support plans for technology development in the air and ground components of the products. Under the terms of the agreement, a repayable unsecured WINN contribution to the value of the lesser of 50% of the eligible project costs to March 31, 2019 or \$2,350,000 will be received. The amount is repayable over five years commencing January 1, 2020. At December 31, 2017, the Company had received contributions of \$1,080,658.

A summary of the carrying value of the SADI and WINN loans as at December 31, 2017 and 2016 and changes during these years is presented below.

	2017		2016	
	SADI	WINN	SADI	WINN
Balance January 1	1,072,641	-	984,507	-
Received	-	1,080,658	-	-
Grant portion	-	(318,310)	-	-
Interest accretion	193,805	29,989	178,368	-
Repayment	(103,767)	-	(90,234)	-
Balance December 31	1,162,679	792,338	1,072,641	-
Less current portion	112,578	-	97,895	-
Non-current portion	1,050,101	792,338	974,746	-

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. These deposits are nonrefundable.

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. 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 the 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.

The chart below outlines the movement in the Company's customer deposits throughout the periods ending December 31, 2017 and 2016 including prepayments for AFIRS sales and Parts. Payment was received for 11 installation kits in the fourth quarter of 2017 compared to 14 received in the fourth quarter of 2016, bringing 2017 year-to-date ("YTD") total payments for installation kits to 64, compared to a total of 58 in 2016.

	Q4 2017	Q4 2016	Variance	YTD 2017	YTD 2016	Variance
	\$	\$	\$	\$	\$	\$
Opening balance	1,106,012	508,224	597,788	317,899	1,020,675	(702,776)
Payments received	1,801,603	512,257	1,289,346	5,453,511	2,681,987	2,771,524
Moved to unearned revenue	(1,219,644)	(702,582)	(517,062)	(4,083,439)	(3,384,763)	(698,676)
Balance, December 31	1,687,971	317,899	1,370,072	1,687,971	317,899	1,370,072

Unearned Revenue

The chart below outlines the movement in the Company's unearned revenue throughout the periods ending December 31, 2017 and 2016. Revenue was recognized for 27 installation kits in 2017's fourth quarter compared to 12 in the fourth quarter of 2016. YTD, revenue has been recognized for 81 installation kits in 2017, as compared to 73 in 2016. In 2017, 100.0% of the unearned revenue balance at December 31, 2016 was recognized as earned revenue (2016: 100.0%).

	Q4 2017 \$	Q4 2016 \$	Variance \$	YTD 2017 \$	YTD 2016 \$	Variance \$
Opening balance	579,673	747,511	(167,838)	827,235	1,145,341	(318,106)
AFIRS sales shipped	1,219,644	702,582	517,062	4,083,439	3,384,763	698,676
Voice and data services prepaid	-	19,866	(19,866)	-	19,866	(19,866)
AFIRS sales recognized	(1,380,282)	(637,965)	(742,317)	(4,476,999)	(3,703,703)	(773,296)
Voice and data services recognized	(5,226)	(4,759)	(467)	(19,866)	(19,032)	(834)
Balance, December 31	413,809	827,235	(413,426)	413,809	827,235	(413,426)

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

	Q4 2017 \$	Q4 2016 \$	Variance \$	YTD 2017 \$	YTD 2016 \$	Variance \$
Voice and data services	1,001,551	1,169,741	(168,190)	4,312,701	4,375,138	(62,437)
AFIRS sales	1,502,910	854,406	648,504	4,600,520	3,931,607	668,913
Parts sales	1,045,075	2,091,720	(1,046,645)	4,951,616	5,808,491	(856,875)
Services	29,760	11,960	17,800	153,913	215,955	(62,042)
Total	3,579,296	4,127,827	(548,531)	14,018,750	14,331,191	(312,441)

Overall, total revenue decreased 2.2% from \$14,331,191 in 2016 to \$14,018,750 in 2017. AFIRS sales increased by 17.0%, while Voice and data services decreased by 1.4%, Parts sales decreased by 14.8%, and Services revenue decreased by 28.7%.

Voice and data services decreased compared to last year, as although a higher number of aircraft were producing recurring revenue, the average revenue per aircraft decreased, largely due to changes in the value of the USD from 2016 to 2017. Recurring revenue accounted for 28.0% of revenue in Q4 2017 (Q4 2016: 28.3%), and 30.8% YTD 2017 (YTD 2016: 30.5%). Recurring revenue from FLYHT's existing client base is expected to continue to expand throughout 2017 and future years.

AFIRS sales increased in 2017 as compared to 2016 due to an increased number of installation kits meeting the requirements for revenue recognition. YTD, revenue has been recognized for 81 installation kits, compared to 73 in 2016. Revenue was recognized for 27 installation kits in Q4 2017 compared to 12 in Q4 2016.

Parts sales decreased both in the quarter and YTD in 2017 from 2016 due to differences in the number of modems with related license fees shipped.

Services revenue increased in the quarter while decreasing YTD in 2017 compared to 2016. This revenue category can be expected to vary significantly between periods and years, depending on the level of technical services provided to customers in the period.

Revenue sources for the last eight quarters were:

	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Voice and data services	1,001,551	998,337	1,158,340	1,154,473	1,169,741	1,122,965	1,014,725	1,067,707
AFIRS sales	1,502,910	1,392,193	727,858	977,560	854,406	1,353,021	1,286,641	437,540
Parts sales	1,045,075	863,221	1,479,402	1,563,918	2,091,720	1,561,816	1,126,542	1,028,412
Services	29,760	68,591	22,430	33,131	11,960	16,566	109,757	77,672
Total	3,579,296	3,322,342	3,388,030	3,729,082	4,127,827	4,054,368	3,537,665	2,611,331

	Q4 2017	Q4 2016	YTD 2017	YTD 2016
	\$	\$	\$	\$
North America	2,075,584	2,919,694	7,683,296	9,007,719
South/Central America	137,732	231,270	442,603	658,319
Africa	296,843	126,980	774,407	610,886
Middle East	349,433	262,401	873,546	987,750
Europe	159,818	68,184	333,152	286,489
Australasia	158,097	192,925	819,153	719,763
Asia	401,789	326,373	3,092,593	2,060,265
Total	3,579,296	4,127,827	14,018,750	14,331,191

	Q4 2017	Q4 2016	YTD 2017	YTD 2016
	%	%	%	%
North America	58.0	70.7	54.8	62.9
South/Central America	3.8	5.6	3.2	4.6
Africa	8.3	3.1	5.5	4.3
Middle East	9.8	6.4	6.2	6.9
Europe	4.5	1.7	2.4	2.0
Australasia	4.4	4.7	5.8	5.0
Asia	11.2	7.9	22.1	14.4
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 fourth quarter of 2017 was 28.8% compared to 25.1% in 2016's fourth quarter. A review of the annual results shows the cost of sales as a percentage of revenue also increased from 31.6% in 2016 to 34.0% in 2017. The decrease in gross margin was due to differences in the mix of revenue sources in 2017 versus 2016 and a decrease in average AFIRS sales margin from 44.5% in 2016 to 43.4% in 2017. Gross margin will fluctuate quarter over quarter depending on customer needs and revenue mix.

Gross margin for the last eight quarters was:

	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Gross Margin %	56.8	55.4	66.8	69.5	74.9	66.8	63.9	66.9
Cost of Sales	43.2	44.6	33.2	30.5	25.1	33.2	36.1	33.1

Distribution Expenses (Recovery)

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

Major Category	Q4 2017 \$	Q4 2016 \$	Variance \$	YTD 2017 \$	YTD 2016 \$	Variance \$
Salaries and benefits	420,315	978,347	(558,032)	2,361,046	3,255,326	(894,280)
Share based compensation	3,154	4,625	(1,471)	152,272	97,067	55,205
Contract labour	301,633	155,528	146,105	881,837	498,106	383,731
Office	101,744	95,901	5,843	429,294	416,733	12,561
Travel	125,839	139,930	(14,091)	601,172	562,645	38,527
Equipment and maintenance	18,121	12,614	5,507	53,712	25,006	28,706
Depreciation	10,378	10,064	314	34,438	41,580	(7,142)
Marketing	45,337	27,202	18,135	268,033	113,879	154,154
Other	144,174	-	144,174	169,667	(103,303)	272,970
Total	1,170,695	1,424,211	(253,516)	4,951,471	4,907,039	44,432

Distribution expenses increased by 0.9% from 2016 to 2017.

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 decreased in the quarter while increasing YTD in support of increased sales efforts, particularly in China.

Equipment and maintenance expense increases in the quarter and YTD resulted from purchases of cloud-based services to support UpTime Cloud.

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	Q4 2017 \$	Q4 2016 \$	Variance \$	YTD 2017 \$	YTD 2016 \$	Variance \$
Salaries and benefits	306,721	427,797	(121,076)	1,326,548	1,589,395	(262,847)
Share based compensation	11,828	-	11,828	281,675	228,058	53,617
Contract labour	130,294	48,096	82,198	431,423	172,014	259,409
Office	81,981	80,271	1,710	305,694	289,311	16,383
Legal fees	20,015	18,701	1,314	76,446	166,461	(90,015)
Audit and accounting	51,022	41,975	9,047	192,452	141,650	50,802
Investor relations	37,143	31,768	5,375	158,931	153,580	5,351
Brokerage, stock exchange, and transfer agent fees	4,923	6,154	(1,231)	40,350	61,665	(21,315)
Travel	23,261	29,584	(6,323)	102,348	119,143	(16,795)
Equipment and maintenance	38,394	16,062	22,332	131,340	79,187	52,153
Depreciation	27,038	3,268	23,770	59,334	9,704	49,630
Other	12,803	15,421	(2,618)	51,988	77,488	(25,500)
Total	745,423	719,097	26,326	3,158,529	3,087,656	70,873

Administration expenses increased 2.3% from 2016 to 2017.

Contract labour expenses were higher both in the quarter and YTD 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 YTD as several 2016 employee related services were not required in 2017. These included international employment law and treasury matters.

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 required in 2017.

Equipment and maintenance expenses and **Depreciation** increased YTD mainly due to the implementation and license costs associated with the enterprise resource planning software.

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)

Consist of expenses related to the improvement of existing and development of new technology and products.

Major Category	Q4 2017 \$	Q4 2016 \$	Variance \$	YTD 2017 \$	YTD 2016 \$	Variance \$
Salaries and benefits	699,428	467,494	231,934	2,093,261	1,562,383	530,878
Share based compensation	-	-	-	25,448	37,220	(11,772)
Contract labour	87,648	128,310	(40,662)	276,669	315,198	(38,529)
Office	48,557	40,566	7,991	127,221	119,530	7,691
Travel	19,163	12,520	6,643	90,911	54,595	36,316
Equipment and maintenance	32,297	35,335	(3,038)	125,357	111,077	14,280
Components	57,518	28,371	29,147	165,510	57,171	108,339
SR&ED credit	-	8,424	(8,424)	(116,514)	(211,790)	95,276
Depreciation	31,856	4,719	27,137	49,721	15,395	34,326
Government grants	123,402	-	123,402	(318,310)	-	(318,310)
Warranty Settlement	-	-	-	-	540,450	(540,450)
Total	1,099,869	725,739	374,130	2,519,274	2,601,229	(81,955)

Research and Development expense was 3.2% lower 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 an increase in research and development staffing costs. 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 and the replacement of a contractor with staff as can be noted in the decreases in **Contract labour**, together with an increased allocation of staffing costs based on research and development activity requirements.

Travel expenses increased YTD due to an increased requirement for certification test flights. 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.

Depreciation increases concentrated in the fourth quarter were associated with capitalized development-specific software purchased in 2017.

Government grants changed due to funding received from WINN in 2017. The \$318,310 shown is the portion of funds received that has been accounted for as a grant.

Net Finance Costs

Major Category	Q4 2017 \$	Q4 2016 \$	Variance \$	YTD 2017 \$	YTD 2016 \$	Variance \$
Interest (income)	(6,051)	(2,801)	(3,250)	(15,756)	(30,368)	14,612
Net foreign exchange loss (gain)	(5,034)	2,814	(7,848)	115,979	11,023	104,956
Bank service charges	6,107	17,890	(11,783)	38,807	37,331	1,476
Interest expense	64	1,089	(1,025)	681	2,736	(2,055)
Government loan accretion	57,323	46,475	10,848	223,795	178,369	45,426
Debenture interest and accretion	-	75,234	(75,234)	-	509,113	(509,113)
Debenture cost amortization	-	-	-	-	5,295	(5,295)
Net finance costs	52,409	140,701	(88,292)	363,506	713,499	(349,993)

Net foreign exchange loss (gain) will vary between periods due to fluctuations in the value of the Canadian dollar in relation to the U.S. dollar. A YTD strengthening of the Canadian dollar has given rise to increased foreign exchange losses on U.S. dollar denominated sales and purchases, in combination with fluctuations in U.S. denominated assets and liabilities.

Government grant accretion is the recognition of the effective interest component of the SADI and WINN grants.

Debenture interest and accretion decreases were attributable to the debenture redemption in June 2016, which had no effect on 2017.

Net Loss

Major Category	Q4 2017 \$	Q4 2016 \$	Variance \$	YTD 2017 \$	YTD 2016 \$	Variance \$
Net income (loss)	(520,428)	79,709	(600,137)	(1,755,615)	1,712,718	(3,468,333)

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 2017, 99.0% of the Company's gross sales were made in U.S. dollars, compared to 99.0% in 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 audited annual consolidated 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 and the required allocation of the total transaction price key areas of focus. The Company is not able at this time to estimate reasonably the impact that the adoption of 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 and were supported by a third party receipt.

	For the three months ended December 31, 2017		For the year ended December 31	
	2017	2016	2017	2016
Amounts included in:	\$	\$	\$	\$
Contract labour	19,200	-	83,200	-
Accounts payable and accrued liabilities	-	-	-	-

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

In Q1 2018, the Company received contributions totaling \$317,195 under the WINN agreement, bringing the total received to date to \$1,397,853.

In April 2018, the Company applied to the TSX for an amendment of the exercise price of the share purchase warrants that were originally issued on May 12, 2016 from \$2.50 to \$1.60 per share purchase warrant. The warrants are set to expire on May 12, 2018.