

FLYHT AEROSPACE SOLUTIONS LTD.
SECOND QUARTER

2018



FLYHT
INSIGHT • ACTION • CONTROL

TABLE OF CONTENTS

Letter to Shareholders	1
Management Discussion & Analysis.....	3
Non-GAAP Financial Measures	
Forward-Looking Statements	
Overview	
Trends and Economic Factors	
Contracts and Achievements	
Results of Operations	
o Selected Results	
o Financial Position	
o Comprehensive Income	
o Other	
Condensed Consolidated Interim Financial Statements	20
Notes to the Condensed Consolidated Interim Financial Statements	24
Corporate Information	30

Commonly used Financial Terms and Aviation Acronyms

ACARS:	Aircraft Communications Addressing and Reporting System
AFIRS™:	Automated Flight Information Reporting System
ANAC:	National Civil Aviation Agency of Brazil
CAAC:	Civil Aviation Administration of China
DAO:	Design Approval Organization
DGAC:	Dirección 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
HKCAD:	Hong Kong Civil Aviation Department
IATA:	International Air Transport Association
ICAO:	International Civil Aviation Organization
IFRS:	International Financial Reporting Standards
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
SaaS:	Software as a Service
SADI:	Strategic Aerospace and Defence Initiative
SAAU:	State Aviation Authority of Ukraine
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 second quarter was largely focused on strategic initiatives. One of the funds that held our stock exited its position through the first and especially the second quarter which placed a great deal of downward pressure on the stock price. Despite this backdrop, FLYHT has had a good first-half shipping Automated Flight Information Reporting System (AFIRS™) units, has been very successful in re-signing existing clients to new contracts and expanded packages, and we are steadily working several strategic opportunities that we feel can refresh the capital market's view of the company. We are looking forward to the second half of this year with a great deal of enthusiasm.

Financially, FLYHT's second quarter looked a lot like the previous few. Overall, revenue came in at \$3.1M, down 3% relative to the second quarter of 2017. There were puts and takes; AFIRS hardware revenue was up 15% while Licensing revenue was down 15%. Software as a Service (SaaS) revenue was down 7% while Technical Services revenue, though relatively very small, was up 300% relative to second quarter, 2017. Overall, expenses in the quarter were down 8% relative to second quarter 2017, demonstrating the continued effectiveness of management in controlling expenses.

Things look similarly mixed from a year-to-date perspective. Overall, revenues are down 8% relative to this time last year. The AFIRS hardware revenue is up 34% over the same period last year, SaaS revenue is down 8%, Licensing revenue is down 38%, and Technical Services revenue is up 209% relative to this time last year. Total expenses for the first half of this year are down 2% relative to the same period in 2017.

We discussed the Licensing revenue component in the last couple of CEO letters to shareholders. The category is very lumpy, but we are currently ahead for the year.


AFIRS hardware shipments were strong the first quarter this year and in April, then diminished somewhat for May and June. Many of these shipments were from our backlog and we ran out of customers ready to take shipments. Even with the cooling off in the second half of this quarter, we shipped 48 AFIRS units & kits in the first half, which is gratifying and over double the 23 units we had shipped through this time last year. These kits are the key to increasing SaaS revenues. It is interesting to note that from inception through June, FLYHT has shipped 2200 AFIRS units; 1500 AFIRS units through our OEM partner to the A320/A330 production line and 700 units directly to customers or other airframers.

As far as SaaS revenues go, we carefully project these revenues to be positive over the previous year's quarter in the third quarter of this year and beyond. We have been steadily growing the category since we had a large third-party contract expire last year in June, but the large contract expiry had masked this growth.

FLYHT provided a [sales update](#) on June 26 which identified two new customers, one in Europe for hardware and one in Australia for SaaS. We also renewed SaaS contracts for seven airlines and sold hardware or technical services to two existing airlines and an OEM.

Strategically, FLYHT has been working several opportunities. We will publish and present the Timely Access to Flight Data and Autonomous Distress Tracking papers and data from the Boeing ecoDemonstrator Project at the Airlines Electronic Engineering Committee (AEEC) Global Aircraft Tracking (GAT) Working Group meeting in Kelowna, CA in August. We have several significant opportunities in the sales pipeline that we continue to work. These opportunities include our partnership with Inmarsat on the "Black Box in the Cloud" trial. We have also been focused on building our Technical Services Revenue component and developing new revenue verticals within FLYHT. Our hope is to help progress the company's topline at a quicker pace.

2018 marks FLYHT's 20th anniversary. Over the past 20 years, we have matured our products from a bulky prototype to industry leading products, which provide real-time exceedance monitoring and flight data recorder streaming capabilities. We are proud of the solutions we have brought to market and we will continue to look for ways to provide additional value for our customers. Thank you for your ongoing support.



Best Regards,
Thomas R. Schmutz, Chief Executive Officer

FLYHT AFIRS COMPARISON – 2002 PROTOTYPE VS TODAY



The first AFIRS prototype from 2002 (left) is shown versus the AFIRS 228 product that FLYHT markets today. The AFIRS 228 is the third production generation of AFIRS. The prototype shown here was installed in a Bombardier DHC-8 for approximately one year to collect data to guide the development of the first production AFIRS. FLYHT is celebrating 20 years as a company dedicated to improving aviation safety, efficiency and profitability.

MANAGEMENT DISCUSSION & ANALYSIS

This management discussion and analysis (“MD&A”) is as of August 8, 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 June 30, 2018 consolidated financial statements and the notes thereto in accordance with IAS 34 “Interim Financial Reporting”, as issued by the International Accounting Standards Board (“IASB”).

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 performance and profitability. 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 has Canadian, U.S. and Chinese patents for this data streaming technology.

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, 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™

FLYHTFuel is a powerful program that focuses attention on areas of greatest savings potential to provide information necessary in making operational decisions. 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. This 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 (Canada), FAA (United States), EASA (European Union), CAAC (China), ANAC (Brazil) and DGAC (Mexico) for various aircraft models depending on customer requirements. FLYHT is currently pursuing STC validations from the SAAU (Ukraine) and the HKCAD (Hong Kong).

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 Canada		FAA USA		EASA EU		CAAC China		ANAC Brazil		
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				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		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 AFIRS 228 STCs for the Bombardier CRJ- 700, 900, Boeing 737-300, -400, -500 and 737-700, -800 from the DGAC (Mexico). FLYHT has AFIRS 228 applications in progress with State Aviation Administration of the Ukraine (SAAU) for B737-300, -400, -500, B737-700, -800 and B767 aircraft. An AFIRS 228 application is also in progress with Hong Kong Civil Aviation Department (HKCAD) for the Airbus A319, A320 and A321.

Trends and Economic Factors

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

The Aviation Industry in Q2 2018

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. IATA's full second quarter results were not yet released at the publication of this report, so the results shared are for two months of the quarter. Passenger traffic (measured in RPK) saw a 6.2% and 6.1% increase in April and May of 2018 compared to the same months in the previous year.^{1 2} Global freight traffic (measured in FTK) increased by 5.2% and 4.2% in April and May of 2018³, with modest growth predicted for the remainder of the year, rebounding slightly from a weak start to the year.

Results from large commercial aircraft manufacturers were mixed for the first half of 2018. Airbus delivered 303 aircraft in the first half of 2018, compared to 306 in the same period of 2017⁴. Boeing saw positive results in the first half of 2018 with a 7% increase in deliveries. They delivered 378 commercial aircraft compared to 352 in the same period last year⁵. Embraer announced the delivery of 42 commercial aircraft in the first half of 2018 compared to 53 in 2017. Embraer's executive jet deliveries were at 31 in the first half the year, down from 39 in the first half of 2017⁶. Bombardier reports on the results for the quarter as opposed for the first six months of the year. Bombardier's commercial aircraft deliveries were down slightly to 18 deliveries in the second quarter of 2018 from 20 in 2017⁷. Bombardier's business aircraft deliveries were also down to 34 compared to 36 in the same quarter last year⁸. The General Aviation Manufacturers Association (GAMA) reported that total airplane shipments increased 5.3% from the first half of 2017 to the first half of 2018.⁹

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 and 2018. 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 Q2 2018 had a positive impact on the Company's revenue and income compared to Q2 2017. As a result of these currency movements, the Company's revenues, which are substantially all denominated in U.S. dollars, were higher 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

¹ <https://www.iata.org/pressroom/pr/Pages/2018-05-31-03.aspx>

² <https://www.iata.org/pressroom/pr/Pages/2018-07-05-01.aspx>

³ <https://www.iata.org/pressroom/pr/Pages/2018-07-04-01.aspx>

⁴ https://www.airbus.com/content/dam/corporate-topics/financial-and-company-information/Airbus_H1_2018_PRESS_RELEASE.pdf

⁵ <http://investors.boeing.com/investors/investor-news/press-release-details/2018/Boeing-Reports-Strong-Second-Quarter-Generated-Robust-Cash-Raises-Revenue-Guidance/default.aspx>

⁶ https://dafwcl3bnxyt.cloudfront.net/m/0a99207a7ce2cfc0/original/Deliveries-backlog-2Q18-VRI-Ins-l-18_final_v8.pdf

⁷ <https://www.bombardier.com/content/dam/Websites/bombardiercom/News/supporting-documents/Bombardier-Q2C2018-Highlights-BCA-en.pdf>

⁸ <https://www.bombardier.com/content/dam/Websites/bombardiercom/News/supporting-documents/Bombardier-Q2C2018-Highlights-BBA-en.pdf>

⁹ <https://gama.aero/news-and-events/press-releases/gama-publishes-2018-second-quarter-shipments-and-billings-data/>

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 Q2 2018

Contracts*

In May, FLYHT re-signed an existing customer to a five-year contract worth USD \$1.03 million.

In June, FLYHT announced a five-year contract renewal worth USD \$1.43 million.

To end the quarter, FLYHT announced that an aggregate of USD \$4.45 million in new sales contracts and purchase orders had been signed in the second quarter.

*Amounts are calculated assuming the Company provides services over the full term of the contracts

Achievements & Activities

In April, FLYHT announced that UpTime had logged 3 million flight hours.

In April, FLYHT shipped its 2000th AFIRS unit to Azur Aviation.

In May, FLYHT announced the engagement of Adelaide Capital to provide investor relations services.

In May, Inmarsat announced FLYHT as the first partner for its recently-launched Aviation Certified Application Provider (CAP) Programme.

In May, FLYHT received the Canadian Patent for FLYHTStream.

In the quarter, FLYHT was awarded STCs for AFIRS 228 by the DGAC for the Boeing 737- 300/400/500/700/800 series and the ANAC validation of the Transport Canada STC for the Embraer E190-100 series.

Results of Operations

Selected Results

	Q2 2018 \$	Q1 2018 \$	Q4 2017 \$	Q3 2017 \$
Assets	5,105,186	5,711,684	6,994,139	6,556,520
Non-current financial liabilities	2,246,731	2,117,334	1,934,153	1,385,440
Revenue	3,146,266	3,318,311	3,450,007	3,221,380
Cost of sales	1,075,402	1,328,994	816,331	1,514,363
Gross margin	2,070,864	1,989,317	2,633,676	1,707,017
Gross margin %	65.8%	59.9%	76.3%	53.0%
Distribution expenses	1,281,935	1,240,609	1,170,695	1,166,972
Administration expenses	682,575	530,037	745,641	684,651
Research, development and certification engineering expenses	704,730	739,236	1,099,869	458,327
Results from operating activities	(598,377)	(520,565)	(382,529)	(602,933)
Depreciation	36,588	33,134	18,687	26,980
EBITDA*	(561,791)	(487,431)	(363,842)	(575,953)
Income (loss)	(649,293)	(582,375)	(436,978)	(759,447)
Income (loss) per share (basic)	(0.03)	(0.03)	(0.02)	(0.02)
Income (loss) per share (fully diluted)	(0.03)	(0.03)	(0.02)	(0.02)
	Q2 2017 \$	Q1 2017 \$	Q4 2016 \$	Q3 2016 \$
Assets	7,374,048	7,168,914	6,516,206	9,189,104
Non-current financial liabilities	1,209,206	1,027,848	974,749	996,121
Revenue	3,242,382	3,781,119	4,127,827	4,054,368
Cost of sales	1,014,111	1,184,575	1,034,450	1,346,341
Gross margin	2,228,271	2,596,544	3,093,377	2,708,027
Gross margin %	68.7%	68.7%	74.9%	66.8%
Distribution expenses	1,420,236	1,195,194	1,424,211	1,101,318
Administration expenses	1,088,709	638,120	719,097	626,733
Research, development and certification engineering expenses	399,920	561,158	725,739	550,443
Results from operating activities	(680,594)	202,072	224,330	429,533
Depreciation	25,093	22,148	18,687	16,302
EBITDA*	(655,501)	224,220	243,017	445,835
Income (loss)	(759,374)	119,404	79,709	303,890
Income (loss) per share (basic)	(0.04)	0.01	0.00	0.01
Income (loss) per share (fully diluted)	(0.04)	0.01	0.00	0.01

*See Non-GAAP Financial Measures

**2017 results have been restated for IFRS 15

Financial Position

Liquidity and Capital Resource

The Company's cash at June 30, 2018 decreased to \$896,642 from \$2,014,135 at December 31, 2017. The Company has an operating demand loan available through a Canadian chartered bank for up to \$1.5 million CAD. 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 facility was undrawn at June 30, 2018.

At June 30, 2018, the Company had positive working capital of \$1,252,937 compared to positive \$2,020,104 as of December 31, 2017, a decrease of \$767,167. When non-refundable customer deposits, less deposits and prepaid expenses are excluded from the working capital calculation, the resulting modified working capital at June 30, 2018 would be positive \$1,798,534 compared to positive \$3,316,884 at December 31, 2017.

The Company funded Q2 2018 operations primarily through cash received from sales and funding received from the WINN program.

	June 30, 2018	December 31, 2017	Variance
	\$	\$	\$
Cash and cash equivalents	896,642	2,014,135	(1,117,493)
Trade and other receivables	1,110,388	1,650,574	(540,186)
Contract assets	266,848	313,634	(46,786)
Deposits and prepaid expenses	263,137	391,191	(128,054)
Inventory	1,273,043	1,331,893	(58,850)
Trade payables and accrued liabilities	(1,626,220)	(1,868,563)	242,343
Customer deposits	(808,734)	(1,687,971)	879,237
Loans and borrowings	(119,332)	(112,578)	(6,754)
Current tax liabilities	(2,835)	(12,211)	9,376
Working capital	1,252,937	2,020,104	(767,167)
Deposits and prepaid expenses	(263,137)	(391,191)	128,054
Customer deposits	808,734	1,687,971	(879,237)
Modified working capital*	1,798,534	3,316,884	(1,518,350)

*See Non-GAAP Financial Measures

As at August 8, 2018, FLYHT's issued and outstanding share capital was 21,068,617.

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. It is the Company's intention 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 Risk

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.

June 30, 2018	< 2 months \$	2-12 months \$	1-2 years \$	2-5 years \$	> 5 years \$	Total \$
Accounts payable	1,081,163	-	-	-	-	1,081,163
Compensation and statutory deductions	35,662	325,676	62,500	-	-	423,838
Accrued liabilities	1,943	96,931	11,658	10,687	-	121,219
Loans and borrowings	-	-	215,234	1,952,027	1,011,540	3,178,801
Total	1,118,768	422,607	289,392	1,962,714	1,011,540	4,805,021

Operating lease rentals are payable as follows:

	Premises \$
2018	231,339
2019	462,678
2020	462,678
2021	77,113
Total	1,233,808

At June 30, 2018, under the Strategic Aerospace and Defence Initiative (SADI), the Company has an outstanding repayable balance of \$1,507,481 (\$1,626,814 at December 31, 2017). 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 the second quarter of 2018 was \$119,333 (Second quarter of 2017 \$103,767)

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 June 30, 2018, the Company had received contributions of \$1,671,320 (\$1,080,658 at December 31, 2017).

A summary of the carrying value of the SADI and WINN loans as at June 30, 2018 and 2017 and changes during these three and six months is presented below.

	2018			2017		
	SADI	WINN	Total	SADI	WINN	Total
Balance March 31	1,214,804	1,020,099	2,234,903	1,120,693	54,390	1,175,083
Received	-	273,468	273,468	-	422,146	422,146
Repayments	(119,333)	-	(119,333)	(103,768)	-	(103,768)
Grant portion	-	(100,544)	(100,544)	-	(234,711)	(234,711)
Interest accretion	50,916	26,653	77,569	47,122	7,102	54,224
Balance June 30	1,146,387	1,219,676	2,366,063	1,064,047	248,927	1,312,974
Less current portion	119,332	-	119,332	103,767	-	103,767
Non-current portion	1,027,055	1,219,676	2,246,731	960,280	248,927	1,209,207

	2018			2017		
	SADI	WINN	Total	SADI	WINN	Total
Balance January 1	1,162,679	792,338	1,955,017	1,072,641	-	1,072,641
Received	-	590,662	590,662	-	507,876	507,876
Repayments	(119,333)	-	(119,333)	(103,768)	-	(103,768)
Grant portion	-	(210,173)	(210,173)	-	(266,746)	(266,746)
Interest accretion	103,041	46,849	149,890	95,173	7,797	102,970
Balance June 30	1,146,387	1,219,676	2,366,063	1,064,047	248,927	1,312,974
Less current portion	119,332	-	119,332	103,767	-	103,767
Non-current portion	1,027,055	1,219,676	2,246,731	960,280	248,927	1,209,207

Contract Liabilities – Customer Deposits

Customers are frequently required to pay for AFIRS Hardware prior to the planned shipment date, or for Technical Services in advance of delivery. This non-refundable prepayment is recorded as a Customer Deposit liability upon receipt. When the associated items are shipped, or services provided, the deposit is applied to clear the resulting trade receivable.

The chart below outlines the movement in the Company's customer deposits throughout the three and six months ending June 30, 2018 and 2017. Payment was received for 25 installation kits in the second quarter of 2018 compared to 31 received in the second quarter of 2017. For the six months ended June 30, 2018, payment has been received for 31 kits compared to 45 in 2017.

	Q2 2018	Q2 2017	Variance	YTD 2018	YTD 2017	Variance
	\$	\$	\$	\$	\$	\$
Opening balance	838,560	701,556	137,004	1,687,971	317,899	1,370,072
Payments received	832,211	789,972	42,239	1,417,869	2,071,637	(653,768)
Recognized as revenue	(862,037)	(582,210)	(279,827)	(2,297,106)	(1,480,218)	(816,888)
Balance, June 30	808,734	909,318	(100,584)	808,734	909,318	(100,584)

Comprehensive Income

Revenue

In tandem with adopting the requirements of IFRS 15, the Company re-assessed revenue categories to isolate licensing from other parts purchases, to establish one category for all hardware sales, and to rename revenue from recurring voice and data services.

In the categories listed in the revenue sources chart, Software as a Service (**SaaS**) is the recurring revenue from the Company's product that allows customers to utilize and analyze data they receive from AFIRS and use of functions such as the satellite phone. These usage fees are recognized as the service is provided based on actual customer usage each month. **AFIRS Hardware** includes the income from AFIRS hardware sales and related parts required to install the unit, spare AFIRS units, spare installation parts, and

Underfloor Stowage Units. **Licensing** includes sales of modems with a related manufacturing license fee. **Technical Services** includes all services offered by the Company, including repairs and other expertise.

	Q2 2018	Q2 2017	Variance	YTD 2018	YTD 2017	Variance
	\$	\$	\$	\$	\$	\$
SaaS	1,079,214	1,158,340	(79,126)	2,122,244	2,312,813	(190,570)
AFIRS Hardware	854,350	743,115	111,235	2,420,619	1,813,179	607,440
Licensing	1,122,974	1,318,497	(195,523)	1,749,936	2,841,948	(1,092,012)
Technical Services	89,728	22,430	67,298	171,777	55,561	116,215
Total	3,146,266	3,242,382	(96,116)	6,464,577	7,023,501	(558,926)

For the three months ended June 30, 2018, total revenue decreased 3.0% compared to the same period in 2017. For the six months ended June 30, 2018 total revenue decreased 8.0% from 2017.

For the three months ended June 30, 2018, AFIRS Hardware increased by 15.0% and Technical Services increased by 300%. SaaS revenue decreased by 6.8% and Licensing revenue was down 14.8%. For the six months ended June 30, 2018, AFIRS Hardware increased by 33.5% and Technical Services increased by 209.2%. SaaS revenue decreased by 8.2% and Licensing revenue was down 38.4%.

SaaS decreased compared to last year's second quarter, due to a lower number of aircraft producing recurring revenue augmented slightly by the higher value of the USD. This recurring revenue accounted for 34.3% of revenue in Q2 2018 (Q2 2017: 35.7%) and 32.8% in the six months ended June 30, 2018 (32.9% for the six months ended June 30, 2017). Recurring revenue from FLYHT's existing client base is expected to continue to expand throughout 2018 and future years as increased sales of AFIRS Hardware is increasing the install base.

AFIRS Hardware increased in Q2 2018 as compared to Q2 2017 due to increased shipments of installation kits, offset partially by lower sales of non-kit hardware. Revenue was recognized for 17 installation kits in 2018's second quarter compared to 12 in the second quarter of 2017.

Licensing decreased due to differences in the number of modems with related license fees ordered in 2018.

Technical Services revenue increased in 2018 compared to 2017 due to a higher number of technical services provided to customers throughout Q2 2018. This revenue category can be expected to vary significantly between periods and years.

Revenue sources for the last eight quarters were as follows. The effect of IFRS 15 is reflected in 2017 and 2018 quarters only.

	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016
SaaS	1,079,214	1,043,030	1,001,551	998,337	1,158,340	1,154,473	1,169,741	1,122,965
AFIRS Hardware	854,350	1,566,270	1,942,636	1,689,030	743,115	1,070,064	1,071,466	1,409,036
Licensing	1,122,974	626,962	444,931	465,422	1,318,497	1,523,451	1,874,660	1,505,801
Technical Services	89,728	82,049	60,889	68,591	22,430	33,131	11,960	16,566
Total	3,146,266	3,318,311	3,450,007	3,221,380	3,242,382	3,781,119	4,127,827	4,054,368

	Q2 2018		Q2 2017*		YTD 2018		YTD 2017*	
	\$	%	\$	%	\$	%	\$	%
North America	1,831,818	58.3	2,071,535	63.8	3,311,770	51.3	4,259,737	60.6
South/Central America	83,670	2.7	103,102	3.2	166,324	2.6	204,125	2.9
Africa	111,311	3.5	141,595	4.4	215,796	3.3	229,737	3.3
Middle East	325,128	10.3	212,474	6.6	1,456,237	22.5	471,282	6.7
Europe	51,513	1.6	75,406	2.3	112,701	1.7	147,236	2.1
Australasia	171,168	5.4	154,681	4.8	331,636	5.1	328,006	4.7
Asia	571,658	18.2	483,589	14.9	870,113	13.5	1,383,378	19.7
Total	3,146,266	100.0	3,242,382	100.0	6,464,577	100.0	7,023,501	100.0

*Restated for IFRS 15

Gross Profit and Cost of Sales

FLYHT's cost of sales includes the direct costs associated with revenue, including the AFIRS unit, installation kits, training and installation support, as well as associated shipping expenses and travel expenses for the Company's engineering personnel while performing on-site installation support. Installations on aircraft are performed by third parties at the customer's expense. Cost of sales as a percentage of revenue in the second quarter of 2018 was 34.2% compared to 31.3% in 2017's second quarter. The increase in gross margin was due to differences in the mix of revenue sources in 2018 versus 2017. Gross margin will fluctuate quarter over quarter depending on customer needs and revenue mix.

Gross margin for the last eight quarters was:

	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016*	Q3 2016*
Gross Margin %	65.8	59.9	76.3	53.0	68.7	68.7	74.9	66.8
Cost of Sales %	34.2	40.1	23.7	47.0	31.3	31.3	25.1	33.2

*Not restated for IFRS 15

Distribution Expenses

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

Major Category	Q2 2018 \$	Q2 2017 \$	Variance \$	YTD 2018 \$	YTD 2017 \$	Variance \$
Salaries and benefits	706,931	610,212	96,719	1,333,622	1,330,344	3,278
Share based compensation	12,970	142,053	(129,083)	17,701	149,118	(131,417)
Contract labour	201,686	240,847	(39,161)	415,674	375,911	39,763
Office	99,701	109,895	(10,194)	192,133	215,833	(23,700)
Travel	136,897	165,971	(29,074)	290,222	311,807	(21,585)
Equipment and maintenance	31,337	8,100	23,237	52,906	19,201	33,705
Depreciation	8,284	8,127	157	16,057	15,692	365
Marketing	77,958	121,758	(43,800)	91,441	182,055	(90,614)
Other	6,172	13,273	(7,101)	112,789	13,843	98,946
Total	1,281,936	1,420,236	(138,300)	2,522,545	2,613,804	(91,259)

Distribution expenses decreased compared to Q2 2017 due mainly to a change in our share-based compensation plans.

Salaries and benefits have increased in the quarter primarily due to the replacement of certain contractors with staff, as can be seen in the offsetting decrease in Contract labour, together with an increased allocation of staffing costs based on research and development activities.

Share based compensation expense has decreased due to a change in the vesting period applicable to options granted under our option plan. Previous years' expense was largely incurred in Q2, while this 2018 plan change will result in the related expense being incurred throughout the vesting period.

Marketing expense was lower in Q2 2018 than Q2 2017 and YTD primarily due to higher 2017 costs related to business expansion in China.

Other expense YTD increases are the result of differences in bad debt reserves required in Q1 2018 as compared to 2017.

Administration Expenses

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

Major Category	Q2 2018 \$	Q2 2017 \$	Variance \$	YTD 2018 \$	YTD 2017 \$	Variance \$
Salaries and benefits	318,985	445,309	(126,324)	635,236	778,026	(142,790)
Share based compensation	11,486	243,907	(232,421)	11,486	269,847	(258,361)
Contract labour	77,022	82,450	(5,428)	85,767	151,762	(65,995)
Office	76,310	72,368	3,942	149,028	145,404	3,624
Legal fees	24,080	28,270	(4,190)	31,177	43,951	(12,774)
Audit and accounting	54,031	71,680	(17,649)	89,574	114,055	(24,481)
Investor relations	33,491	51,054	(17,563)	56,558	86,287	(29,729)
Brokerage, stock exchange, and transfer agent fees	14,213	18,050	(3,837)	18,543	23,698	(5,155)
Travel	34,157	38,689	(4,532)	42,400	45,255	(2,855)
Equipment and maintenance	14,591	21,986	(7,395)	50,128	42,201	7,927
Depreciation	18,961	10,907	8,054	35,206	21,424	13,782
Other	5,248	4,039	1,209	7,509	6,545	964
Total	682,575	1,088,709	(406,134)	1,212,612	1,728,455	(515,843)

Administration expenses have decreased by 37.3% from Q2 2017 to Q2 2018.

Salaries and benefits and **Contract labour** decreased due to a difference in staffing mix, an increased allocation of staffing costs to research and development activities, and differences due to 2017's fees related to professional services and deploying guiding principles not recurring in 2018.

Share based compensation expense has decreased due to a change in the vesting period applicable to options granted under our option plan. Previous years' expense was largely incurred in Q2, while this 2018 plan change will result in the related expense being incurred throughout the vesting period.

Research, Development and Certification Engineering Expenses (Recovery)

Major Category	Q2 2018 \$	Q2 2017 \$	Variance \$	YTD 2018 \$	YTD 2017 \$	Variance \$
Salaries and benefits	630,085	520,054	110,031	1,326,434	899,740	426,694
Share based compensation	2,419	25,448	(23,029)	2,419	25,448	(23,029)
Contract labour	37,170	44,689	(7,519)	119,015	143,557	(24,542)
Office	35,544	24,604	10,940	47,814	49,803	(1,989)
Travel	18,549	64,018	(45,469)	42,400	90,268	(47,868)
Equipment and maintenance	14,703	26,479	(11,776)	43,351	56,068	(12,717)
Components	56,871	39,797	17,074	53,639	69,329	(15,690)
SR&ED credit	-	(116,514)	116,514	-	(116,514)	116,514
Depreciation	9,344	6,059	3,285	18,479	10,125	8,354
Government grants	(100,544)	(234,711)	134,167	(210,173)	(266,746)	56,573
Other	590	-	590	590	-	590
Total	704,731	399,920	304,811	1,443,967	961,078	482,890

Research and Development expense was higher in Q2 2018 than Q2 2017 due to increased staffing costs, lower SR&ED credits and government grants offset by lower component costs and increased funding from the WINN program. Research and development costs vary according to specific project requirements.

Salaries and benefits has increased in the current year due to an expansion of the Company's software development team and increased staffing allocation to research and development activities.

Share based compensation expense has decreased due to a change in the vesting period applicable to options granted under our option plan. Previous years' expense was largely incurred in Q2, while this 2018 plan change will result in the related expense being incurred throughout the vesting period.

Components requirements decreased as a higher number of expensed parts were used in development and testing activities in Q2 2017.

SR&ED credits historically received mid-year will resume in 2019, as SR&ED eligible activities are being funded in 2018 alternatively by contributions from the WINN program.

Government grants decrease was due to differences in contributions received from WINN from Q2 2017 to Q2 2018. The recoveries shown are the portion of funds received from WINN that have been accounted for as a grant.

Net Finance Costs

Major Category	Q2 2018 \$	Q2 2017 \$	Variance \$	YTD 2018 \$	YTD 2017 \$	Variance \$
Interest (income)	(1,497)	(3,275)	1,778	(5,752)	(5,044)	(708)
Net foreign exchange loss (gain)	(31,837)	7,020	(38,857)	(47,309)	32,908	(80,217)
Bank service charges	6,470	19,062	(12,592)	14,518	25,368	(10,850)
Interest expense	2,338	68	2,270	2,386	559	1,827
Government loan accretion	77,569	54,223	23,346	149,890	102,970	46,920
Net finance costs (income)	53,043	77,098	(24,055)	113,733	156,761	(43,028)

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. All international and a majority of domestic sales of the Company's products and services are denominated in U.S. dollars. Accordingly, the Company is susceptible to foreign exchange fluctuations. In Q2 2018, 99.6% of the Company's gross sales were made in U.S. dollars, compared to 98.6% in Q2 2017. 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 contracts in U.S. dollars for certain services and products, which creates a partial natural hedge.

Government loan accretion is the recognition of the effective interest component of the SADI and WINN loans, and will increase over time prior to loan payment, and as additional WINN contributions are received.

Net Income (Loss)

Major Category	Q2 2018 \$	Q2 2017* \$	Variance \$	YTD 2018 \$	YTD 2017* \$	Variance \$
Net income (loss)	(649,293)	(759,374)	110,081	(1,231,669)	(639,970)	(591,699)

*restated for IFRS 15

Other

Recent Accounting Pronouncements

Except as described below, the accounting policies set out in note 3 of FLYHT's December 31, 2017 consolidated financial statements have been applied consistently to all periods presented in these condensed consolidated interim financial statements. These accounting policies have also been applied consistently by FLYHT's subsidiaries.

Effective January 1, 2018 the Company adopted the amendments of IFRS 15, which implemented a single model that applies to contracts with customers with two approaches to recognizing revenue: at a point in time and over time. The model features a contract-based five step analysis of transactions to determine whether, how much and when revenue is recognized. The retrospective method was used to ensure comparability, which required quarterly restatement of comparative periods. No restatement was made for contracts completed by January 1, 2017. Opening 2017 retained earnings was adjusted for the cumulative effect prior to that date. Effective January 1, 2018 the Company also adopted the amendments of IFRS 9 which replaced the 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. The Company evaluates impairment of receivables using an expected credit loss model, which involves assessing potential credit impairment at each reporting date. Adopting this standard has not had a material impact on the Company's financial statements.

The following new accounting pronouncement has been issued but is not effective and may have an impact on the Company. The following standard permits early adoption with transitional arrangements depending upon the date of initial application:

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 this standard on its audited annual or condensed interim consolidated 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 to install on an aircraft, depending on the aircraft type and installation 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. The Company also offers special discounts for upfront payment for all units as another mitigation tool. 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 2018. The Company's success will ultimately depend on the success of its products, and future enhancements made to them.

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. This company also provided certain financial services in Q2 2018. All of the transactions with the related party were at exchange amounts that approximated fair value.

	For the six months ended	
	June 30	
	2018	2017
	\$	\$
Amounts included in:		
Contract labour	12,900	-
Accounts payable and accrued liabilities	12,900	-

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

On June 27, 2018 the Company announced that was proposing a non-brokered debt offering of convertible debentures of FLY for aggregate gross proceeds of up to \$2,000,000.

The TSX Venture Exchange conditionally approved the transaction and the financing closed on July 24, 2018.

The details of the debt financing are as follows: The Debentures will mature on July 24, 2021 (if not otherwise converted) and will bear interest at a rate of 8% per annum, which shall be accrued and paid annually in arrears. The Debentures shall be convertible at the option of the debenture holder into common shares of the Corporation ("Common Shares") at a conversion rate of \$1.30 per share at any time prior to maturity, subject to a forced conversion (at a conversion rate of \$1.30 per share) into Common Shares should the closing price of the Company's Common Shares be equal to or exceed \$1.80 for 20 consecutive trading days.

Purchasers of Debentures received a capital discount of 2.5% on the financing (meaning that for every \$1.00 Debenture acquired, purchasers of Debentures paid \$0.975 to the Company).

769,200 warrants ("Warrants") were issued to the purchasers of the Debentures (for every \$1.00 principal amount of Debentures acquired pursuant to the offering, Debenture holders received approximately 0.3846 Warrants). Each whole Warrant shall be exercisable to acquire one Common Share of the Corporation for a period of two (2) years from the date of issuance at an exercise price of \$1.45 per share. The Warrants are subject to an acceleration clause, whereby, if after four months and one day following the date the Warrants are issued, the closing price of the Company's Common Shares is equal to or exceeds \$1.90 for 20 consecutive trading days (with the 20th such trading date hereafter referred to as the "Eligible Acceleration Date"), the Warrant expiry date shall accelerate to the date which is 30 calendar days following the date a press release is issued by the Company announcing the reduced warrant term, provided, no more than five business days following the Eligible Acceleration Date: (i) the press release is issued; and (ii) notices are sent to all warrant holders.

Auditors' Involvement

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

The auditors of FLYHT Aerospace Solutions Ltd. have not performed a review of the condensed consolidated interim financial statements for the three and six months ended June 30, 2018 and June 30, 2017.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION (UNAUDITED)

	June 30, 2018	December 31, 2017
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	896,642	2,014,135
Trade and other receivables	1,110,387	1,650,574
Contract assets	266,848	313,634
Deposits and prepaid expenses	263,137	391,191
Inventory	1,273,043	1,331,893
Total current assets	3,810,057	5,701,427
Non-current assets		
Property and equipment	374,321	398,272
Intangible assets	34,992	34,992
Inventory	885,816	859,448
Total non-current assets	1,295,129	1,292,712
Total assets	5,105,186	6,994,139
Liabilities		
Current liabilities		
Trade payables and accrued liabilities	1,634,663	1,868,563
Customer deposits	808,734	1,687,971
Loans and borrowings (note 8)	119,332	112,578
Current tax liabilities	2,835	12,211
Total current liabilities	2,565,564	3,681,323
Non-current liabilities		
Loans and borrowings (note 8)	2,246,731	1,842,439
Provisions	98,291	91,713
Total non-current liabilities	2,345,022	1,934,152
Total liabilities	4,910,586	5,615,475
Equity		
Share capital	58,430,455	58,409,225
Warrants	-	911,282
Contributed surplus	10,287,528	9,349,871
Deficit	(68,523,383)	(67,291,714)
Total equity	194,600	1,378,664
Total liabilities and equity	5,105,186	6,994,139

See accompanying notes to condensed consolidated interim financial statements, including the going concern (note 2d). Under the transition method chosen for application of IFRS15, comparative information has been restated (note 3).

On behalf of the board

“Signed”
Director – Bill Tempany

“Signed”
Director – Paul Takalo

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

	For the three months ended		For the six months ended	
	June 30		June 30	
	2018	2017*	2018	2017*
	\$	\$	\$	\$
Revenue (note 7)	3,146,266	3,242,382	6,464,577	7,023,501
Cost of sales	1,075,402	1,014,111	2,404,396	2,198,686
Gross profit	2,070,864	2,228,271	4,060,181	4,824,815
Distribution expenses	1,281,936	1,420,236	2,522,545	2,613,804
Administration expenses	682,575	1,088,709	1,212,612	1,728,455
Research, development and certification engineering expenses	704,731	399,920	1,443,967	961,078
Income (loss) from operating activities	(598,378)	(680,594)	(1,118,943)	(478,522)
Finance (income)	(1,497)	(3,275)	(5,752)	(5,044)
Finance costs	54,540	80,373	119,485	161,805
Net finance costs	53,043	77,098	113,733	156,761
Income (loss) before income tax	(651,421)	(757,692)	(1,232,676)	(635,283)
Income tax expense (recovery)	(2,128)	1,682	(1,007)	4,687
Income (loss) for the period	(649,293)	(759,374)	(1,231,669)	(639,970)
Total comprehensive income (loss) for the period	(649,293)	(759,374)	(1,231,669)	(639,970)
Income (Loss) per share	(0.03)	(0.04)	(0.06)	(0.03)
Basic and diluted income (loss) per share (note 6)	(0.03)	(0.04)	(0.06)	(0.03)

See accompanying notes to condensed consolidated interim financial statements.

*Under the transition method chosen for application of IFRS15, comparative information has been restated (note 3).

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY (DEFICIT) (UNAUDITED)

For the six months ended June 30, 2018 and 2017

	Share Capital	Warrants	Contributed Surplus	Deficit	Total Equity (Deficit)
	\$	\$	\$	\$	\$
Balance at December 31, 2017*	58,409,225	911,282	9,349,871	(67,291,714)	1,378,664
Income for the period	-	-	-	(1,231,669)	(1,231,669)
Total comprehensive income for the period	-	-	-	(1,231,669)	(1,231,669)
Contributions by and distributions to owners					
Share-based payment transactions	-	-	31,605	-	31,605
Warrants exercised	21,230	(5,230)	-	-	16,000
		(906,052)	906,052	-	-
Total contributions by and distributions to owners	21,230	(911,282)	937,657	-	47,605
Balance at June 30, 2018	58,430,455	-	10,287,528	(68,523,383)	194,600
Balance at January 1, 2017*	57,514,646	1,139,934	9,017,979	(65,455,319)	2,217,240
Loss for the period	-	-	-	(639,970)	(639,970)
Total comprehensive loss for the period	-	-	-	(639,970)	(639,970)
Contributions by and distributions to owners					
Share-based payment transactions	-	-	444,413	-	444,413
Share options exercised	88,185	-	(30,043)	-	58,142
Warrants exercised	515,183	(228,652)	-	-	286,531
Total contributions by and distributions to owners	603,368	(228,652)	414,370	-	789,086
Balance at June 30, 2017	58,118,014	911,282	9,432,349	(66,095,289)	2,366,356

See accompanying notes to condensed consolidated interim financial statements.

*Under the transition method chosen for application of IFRS15, comparative information has been restated (note 3).

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS (UNAUDITED)

	For the six months ended June 30	
	2018	2017
	\$	\$
Cash flows from (used in) operating activities		
Income (loss) for the period	(1,231,669)	(639,970)
Depreciation – property plant and equipment	69,742	47,241
Grant portion of contributions from WINN (note 8)	(210,173)	(266,746)
Government grant accretion	149,890	102,970
Equity-settled share-based payment transactions	31,605	444,413
Change in inventories	32,482	243,052
Change in trade and other receivables	545,982	(878,104)
Change in contract assets	46,786	(68,687)
Change in prepayments	128,054	(207,758)
Change in trade and other payables	(255,370)	393,413
Change in customer deposits	(879,237)	591,419
Change in provisions	6,578	18,434
Change in unearned revenue	-	(9,951)
Unrealized foreign exchange	7,892	128,552
Interest expense	2,385	559
Interest paid	(2,385)	(559)
Interest income	(5,752)	(5,044)
Interest received	5,752	5,044
Income tax expense	1,007	4,687
Income tax paid	(10,383)	(7,202)
Net cash from (used in) operating activities	(1,566,814)	(104,237)
Cash flows used in investing activities		
Acquisitions of property and equipment	(45,791)	(135,572)
Net cash used in investing activities	(45,791)	(135,572)
Cash flows from (used in) financing activities		
Proceeds from exercise of share options and warrants	16,000	344,673
Contributions from WINN (note 8)	590,662	507,875
Repayment of borrowings	(119,333)	(103,767)
Payment of finance lease liabilities (note 8)	-	(10,946)
Net cash from (used in) financing activities	487,329	737,835
Net increase (decrease) in cash and cash equivalents	(1,125,276)	498,026
Cash and cash equivalents, beginning	2,014,135	709,958
Effect of exchange rate fluctuations on cash held	7,783	(26,377)
Cash and cash equivalents, ending	896,642	1,181,607

See accompanying notes to condensed consolidated interim financial statements.

Under the transition method chosen for application of IFRS15, comparative information has been restated (note 3).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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 six months ended June 30, 2018 and 2017 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 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, 2017. This is the second set of FLYHT’s financial statements where IFRS 15 and IFRS 9 have been applied. Changes to significant accounting policies are described in note 3. These condensed consolidated interim financial statements were approved by the Board of Directors on August 8, 2018.

(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 June 30, 2018, the Company had positive working capital of \$1,252,937 and a deficit of \$68,523,383. For the six months ended June 30, 2018, the Company had a net loss of \$1,231,669 and cash flow used in operating activities of \$1,566,814.

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. 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 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.

3. Significant accounting policies

Except as described below, the accounting policies set out in note 3 of FLYHT's December 31, 2017 consolidated financial statements have been applied consistently to all periods presented in these condensed consolidated interim financial statements. These accounting policies have also been applied consistently by FLYHT's subsidiaries.

IFRS 15

Effective January 1, 2018 the Company adopted the amendments of IFRS 15, which implemented a single model that applies to contracts with customers with two approaches to recognizing revenue: at a point in time and over time. The model features a contract-based five step analysis of transactions to determine whether, how much and when revenue is recognized. The retrospective method was used to ensure comparability, which required quarterly restatement of comparative periods. No restatement was made for contracts completed by January 1, 2017. Opening 2017 retained earnings was adjusted for the cumulative effect prior to that date.

The following describes the nature of resulting changes in accounting policies for each revenue stream, including the timing of each performance obligation and any significant payment terms.

SaaS

Revenue from sales of Software as a Service is recognized over time as these services are provided. Invoices based on usage are generated monthly and typically are payable within 30 days.

AFIRS Hardware

Control of AFIRS Hardware is transferred upon shipment. Invoices are generated and revenue is recognized at that point in time. Payment terms are based on the creditworthiness of each customer, which results in either a grant of net terms or a requirement to transact on a prepayment basis only. Transaction price is determined by contract or purchase order. Under IAS 18, revenue was deferred until the risks and rewards had been transferred to the buyer. For contracts under which customer acceptance was determined based on installation of the system, revenue and associated cost of goods sold is recognized sooner under IFRS 15 than IAS 18.

Licensing

Control over modems and associated IP licenses is transferred upon shipment, at which point the revenue is recognized. Payment is typically due net 30 post shipment.

Technical Services

Revenue from Technical Services is recognized over time, as the services are provided or as the associated asset is developed. Payment terms for these services typically follow terms established for AFIRS Hardware.

The effect of initially applying this standard is mainly earlier recognition of revenue from AFIRS Hardware. IFRS 15 did not have a significant impact on revenue from SaaS, Licensing, nor Technical Services. Under IFRS 15, revenue is recognized when a customer obtains control of the goods or services. Determination of the timing of this transfer often requires judgement. Management assesses each contract for appropriate allocation of transaction price among performance obligations, including an expected margin analysis and evaluation of consistently applied pricing methods.

The following tables summarize the impact of the Company's transition to IFRS 15.

Comprehensive statement of income, affected categories:

	For the three months ended June 30 2017			For the six months ended June 30 2017		
	Previously reported	IFRS 15 adjustments	Amounts adjusted for IFRS 15	Previously reported	IFRS 15 adjustments	Amounts adjusted for IFRS 15
Revenue	3,388,030	(145,648)	3,242,382	7,117,112	(93,611)	7,023,501
Cost of sales	1,124,487	(110,376)	1,014,111	2,263,089	(64,403)	2,198,686
Gross profit	2,263,543	(35,272)	2,228,271	4,854,023	(29,208)	4,824,815

Comprehensive statement of financial position, affected categories:

	December 31, 2017			January 1, 2017		
	Previously reported	IFRS 15 adjustments	Amounts adjusted for IFRS 15	Previously reported	IFRS 15 adjustments	Amounts adjusted for IFRS 15
Trade and other receivables	1,887,251	(236,677)	1,650,574	2,105,385	(113,725)	1,991,660
Contract assets	-	313,634	313,634	-	113,725	113,725
Current inventory	1,563,558	(231,665)	1,331,893	1,556,794	(467,488)	1,089,306
Unearned revenue	(413,809)	413,809	-	(827,235)	807,369	(19,866)
Deficit	(67,550,815)	259,101	(67,291,714)	(67,795,200)	339,881	(65,455,319)

IFRS 9

Effective January 1, 2018 the Company also adopted the amendments of IFRS 9 which replaced the 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. The Company evaluates impairment of receivables using an expected credit loss model, which involves assessing potential credit impairment at each reporting date. Adopting this standard has not had a material impact on the Company's financial statements.

4. Use of judgements and estimates

In preparing these interim financial statements, management has made judgements and estimates that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. The significant judgements made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those described in the last annual financial statements, except for new significant judgements and key sources of estimation uncertainty related to the application of IFRS 15 and IFRS 9, which are described in note 3.

5. 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, all of which are determined using a number of observable inputs other than quoted prices in active markets.

- Share based payment transactions: measured using the Black-Scholes option pricing model;
- 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.
- Trade and other receivables, trade payables and accrued liabilities: carrying value approximates fair value, due to the short-term nature of the instruments.

6. Earnings per share

Basic earnings per share

The calculation of basic and diluted earnings per share for the quarter ended June 30, 2018 was based on a weighted average number of common shares outstanding of 21,058,894 (basic and diluted) (Q2 2017: basic 20,945,728 and diluted 21,060,537). The calculation of diluted earnings per share did not include stock options of 888,498 (Q2 2017: 1,116,079) and warrants of nil (Q2 2017: 1,708,209) because they would be anti-dilutive.

7. Disaggregation of revenue

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

	For the three months ended June 30		For the six months ended June 30	
	2018 \$	2017 \$	2018 \$	2017 \$
North America	1,831,818	2,071,535	3,311,770	4,259,737
South/Central America	83,670	103,102	166,324	204,125
Africa	111,311	141,595	215,796	229,737
Middle East	325,128	212,474	1,456,237	471,282
Europe	51,513	75,406	112,701	147,236
Australasia	171,168	154,681	331,636	328,006
Asia	571,658	483,589	870,113	1,383,378
Total	3,146,266	3,242,382	6,464,577	7,023,501

The following revenue is based on timing of revenue recognition.

	For the three months ended June 30		For the six months ended June 30	
	2018 \$	2017 \$	2018 \$	2017 \$
Products transferred at a point in time	1,977,324	2,061,612	4,170,556	4,655,127
Products and services transferred over time	1,168,942	1,180,770	2,294,021	2,368,374
Total	3,146,266	3,242,382	6,464,577	7,023,501

The following shows revenue per major product and service categories.

	For the three months ended June 30		For the six months ended June 30	
	2018 \$	2017 \$	2018 \$	2017 \$
SaaS	1,079,214	1,158,340	2,122,244	2,312,813
AFIRS Hardware	854,350	743,115	2,420,620	1,813,179
Licensing	1,122,974	1,318,497	1,749,936	2,841,948
Technical Services	89,728	22,430	171,777	55,561
Total	3,146,266	3,242,382	6,464,577	7,023,501

Contract balances

Contract assets relate primarily to the Company's rights to consideration for work completed but not billed at the reporting date. Customer deposits include prepayments received from customers for AFIRS Hardware, for which revenue is recognized upon shipment, and for Technical Services, for which revenue is recognized over time.

Major customers

Revenues from the three largest customers represent approximately 49.5% and 48.1% of the Company's total revenues for the three and six months ended June 30, 2018 respectively (2017: 53.6% and 50.4%).

8. Cash flow movement of liabilities arising from financing activities

At June 30, 2018, under the Strategic Aerospace and Defence Initiative (SADI), the Company has an outstanding repayable balance of \$1,507,481 (\$1,626,814 at December 31, 2017). 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 the second quarter of 2018 was \$119,333 (Second quarter of 2017 \$103,767)

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 June 30, 2018, the Company had received contributions of \$1,671,320 (\$1,080,658 at December 31, 2017).

A summary of the carrying value of the SADI and WINN loans as at June 30, 2018 and 2017 and changes during these three and six months is presented below.

	2018 \$			2017 \$		
	SADI	WINN	Total	SADI	WINN	Total
Balance March 31	1,214,804	1,020,099	2,234,903	1,120,692	54,390	1,175,082
Received	-	273,468	273,468	-	422,146	422,146
Repayments	(119,333)	-	(119,333)	(103,768)	-	(103,768)
Grant portion	-	(100,544)	(100,544)	-	(234,711)	(234,711)
Interest accretion	50,916	26,653	77,569	47,122	7,102	54,224
Balance June 30	1,146,387	1,219,676	2,366,063	1,064,046	248,927	1,312,973
Less current portion	119,332	-	119,332	103,767	-	103,767
Non-current portion	1,027,055	1,219,676	2,246,731	960,279	248,927	1,209,206

	2018 \$			2017 \$		
	SADI	WINN	Total	SADI	WINN	Total
Balance January 1	1,162,679	792,338	1,955,017	1,072,641	-	1,072,641
Received	-	590,662	590,662	-	507,876	507,876
Repayments	(119,333)	-	(119,333)	(103,768)	-	(103,768)
Grant portion	-	(210,173)	(210,173)	-	(266,746)	(266,746)
Interest accretion	103,041	46,849	149,890	95,173	7,797	102,970
Balance June 30	1,146,387	1,219,676	2,366,063	1,064,046	248,927	1,312,973
Less current portion	119,332	-	119,332	103,767	-	103,767
Non-current portion	1,027,055	1,219,676	2,246,731	960,279	248,927	1,209,206

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. This company also provided certain financial services in Q2 2018. 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 six months ended June 30	
	2018 \$	2017 \$
Amounts included in:		
Contract labour	12,900	-
Accounts payable and accrued liabilities	12,900	-

10. Subsequent events

On June 27, 2018 the Company announced that was proposing a non-brokered debt offering of convertible debentures of FLY for aggregate gross proceeds of up to \$2,000,000.

The TSX Venture Exchange conditionally approved the transaction and the financing closed on July 24, 2018.

The details of the debt financing are as follows: The Debentures will mature on July 24, 2021 (if not otherwise converted) and will bear interest at a rate of 8% per annum, which shall be accrued and paid annually in arrears. The Debentures shall be convertible at the option of the debenture holder into common shares of the Corporation ("Common Shares") at a conversion rate of \$1.30 per share at any time prior to maturity, subject to a forced conversion (at a conversion rate of \$1.30 per share) into Common Shares should the closing price of the Company's Common Shares be equal to or exceed \$1.80 for 20 consecutive trading days.

Purchasers of Debentures received a capital discount of 2.5% on the financing (meaning that for every \$1.00 Debenture acquired, purchasers of Debentures paid \$0.975 to the Company).

769,200 warrants ("Warrants") were issued to the purchasers of the Debentures (for every \$1.00 principal amount of Debentures acquired pursuant to the offering, Debenture holders received approximately 0.3846 Warrants). Each whole Warrant shall be exercisable to acquire one Common Share of the Corporation for a period of two (2) years from the date of issuance at an exercise price of \$1.45 per share. The Warrants are subject to an acceleration clause, whereby, if after four months and one day following the date the Warrants are issued, the closing price of the Company's Common Shares is equal to or exceeds \$1.90 for 20 consecutive trading days (with the 20th such trading date hereafter referred to as the "Eligible Acceleration Date"), the Warrant expiry date shall accelerate to the date which is 30 calendar days following the date a press release is issued by the Company announcing the reduced warrant term, provided, no more than five business days following the Eligible Acceleration Date: (i) the press release is issued; and (ii) notices are sent to all warrant holders.

CORPORATE INFORMATION

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Online: Investor Centre – contact us section
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Share Listing

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

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Former Chairman and Chief Executive Officer, ARINC Inc.
Partner, Geselbracht Brown
President, Airbus Americas, Inc. (retired)
Director
President, Marlin Ventures Ltd.
President, General Aero Company
United States Air Force (retired)
Director

Officers

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David Perez
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