FLYHT AEROSPACE SOLUTIONS LTD.

FIRST QUARTER

2018

FLYHT™

INSIGHT • ACTION • CONTROL

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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: Direccion General de Aeronautica Civil (Mexico's certification organization)
EASA: European Aviation Safety Agency
EBITDA: Earnings before interest, taxes, depreciation and amortization
ECAA: Egyptian Civil Aviation Authority
FAA: Federal Aviation Administration
GAAP: Generally Accepted Accounting Principles
GAMA: General Aviation Manufacturers Association
GAMECO: Guangzhou Aircraft Maintenance Engineering Company Limited
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

During the first quarter, FLYHT finalized its adoption of IFRS 15, a standard that all Canadian publicly traded companies must adopt effective January 1, 2018. Historically, FLYHT has reported revenues in categories named **Voice and Data Services, AFIRS Sales, Parts Sales and Services**. FLYHT has chosen to re-assess its revenue categories in order remove ambiguity and increase transparency in our revenue reporting to our investors in tandem with the IFRS 15 implementation. The Parts Sales category was confusing because it was disproportionately dominated by licensing revenue from our OEM partner, but also included other spare part hardware items. The AFIRS Sales category was awkward because this category only included complete AFIRS Installation kits and would not include stand-alone AFIRS units when sold without an installation package. These stand-alone AFIRS units would end up being reported in the Parts Sales category. The "Voice and Data Services" and "Services" category names were too similar. Finally, using the word "Sales" as part of Revenue categories was unfortunate because we report sales (contracts and purchase orders) separately from revenues (accounting recognition).

Henceforth, FLYHT will report the revenues in categories as described below.

- **SaaS** - Software as a Service, is a renaming for clarity of the monthly recurring revenue portion of our revenues, historically called Voice and Data Services, and principally delivered from the UpTime™ servers.
- **AFIRS Hardware** – Includes all the hardware that we sell not associated with license fees. This includes all non-licensing associated hardware components previously included in Parts Sales along with the previous category of AFIRS Sales.
- **Licensing** - All revenues associated with our OEM relationships, which currently includes OEM sales for the A320/A330.
- **Technical Services** - The charges for bespoke work that we do for clients, which is a renaming of the historical category of Services for clarity.

Interested parties will find a reassessment of our revenues over the past two years into these new categories in the quarterly financial report and we hope that this better clarifies our sources of revenue for our investors moving forward.

Overall, revenue in the first quarter this year was approximately $3.3 million and down 12% from Q1 2017 primarily due to reductions in **Licensing** revenue. This was expected, as I indicated on the Q4 conference call a couple weeks ago, and represents the value associated with the forecast from our OEM partner. There are a few different reasons Licensing revenue is down from its peak in 2016, but the primary one is the reduction in the selling of retrofit service bulletins by the air framer that our OEM partners sell to. We believe that certain customers purchased retrofit packages to achieve commonality within their aircraft assets and that part of demand is satisfied, leaving the steady state business represented by the Q1 Licensing revenue component. This component has been and will continue to be uneven throughout the year, but this year we expect annual revenue at the rate represented by the amount in Q1. On the last conference call, I referred to this as the "new normal".

This first quarter total revenue figure is in line with our expectations for this point in the year and includes a 46% increase in **AFIRS Hardware** revenue over Q1 2017. This is also consistent with the trend for increased hardware sales that we have shown for the past several quarters. We recognized revenue on 31 systems in Q1 2018 compared to 11 systems in Q1 2017. We believe this increase in hardware sales can ultimately improve the revenues in **SaaS** category, which was down 10% relative to Q1 2017 due to customer insolvencies and other headwinds. Several of the systems shipped in Q4 2017 and Q1 2018 will be installed and will be turned on with SaaS revenues resulting from the installations. Those systems not currently contractually scheduled for SaaS are candidates for up-selling and the entire company is focused on this SaaS selling effort as the number one priority; for this, we have specific initiatives underway.

On the new sales front, and as announced in the First Quarter 2018 Update on April 3, 2018, FLYHT captured USD $2.9 million in new contracts and purchase orders during the quarter, including ten existing customers that renewed their contracts for UpTime data services and sales of AFIRS to five customers: an existing OEM customer and two new customers, an OEM integrator and an aircraft lessor. Also included in this dollar figure were additional purchases of license fees and a new agreement with a large global organization to monetize weather data from certain aircraft. It is particularly satisfying to renew contracts, which are typically five years in length, for a good fraction of our SaaS customers, and is the ultimate validation of the value these SaaS products bring to our customers.

As I write this letter, our "Timely Location and Data Recovery" trial on the Boeing ecoDemonstrator is nearing completion. FLYHT will report the results after we complete the demonstration of these new tools in our SaaS suite that give a glimpse of the future of aircraft situational awareness to industry giants. However, to complete this letter, I would like to remind our stakeholders of the current, very practical use of our real-time SaaS products.

On April 17, one person was killed, and seven other passengers sustained minor injuries on a Southwest Airlines flight from New York to Dallas. One of the aircraft engines exploded during the flight and shrapnel caused a window to shatter and partially sucked a passenger out of the window. The preliminary investigation indicates that there is evidence of metal fatigue in the turbofan blade which caused the engine failure. We don't know all the facts yet, but this terrible incident sounds a lot like a situation that FLYHT's AFIRS system prevented. Last year I described the incident in a success story in one of my Investor Letters, linked here http://flyht.com/flyht-ceo-letter-fifth-edition/. Not only did our customer potentially avoid such a tragic incident, the loss of life and injury, along with the impending litigation but they ended up saving millions of dollars by using real-time exceedance monitoring to shorten their decision cycle. I am reaching out to industry and press carefully following this recent example to help foster the understanding that FLYHT's products can provide huge safety improvements while practically improving the bottom line of operational and maintenance costs. This is what we do.

Best Regards,
Thomas R. Schmutz, Chief Executive Officer

MANAGEMENT DISCUSSION & ANALYSIS

This management discussion and analysis ("MD&A") is as of May 16, 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 March 31, 2018 consolidated financial statements and the notes thereto in accordance with International Financial Reporting Standards (**"IFRS"**), as issued by the International Accounting Standards Board (**"IASB"**). The Company's accounting policies are provided in note 3 to the consolidated financial statements.

Non-GAAP Financial Measures

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

Forward-Looking Statements

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

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

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

FLYHT Overview

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

AFIRS and UpTime

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

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

FLYHTStream™

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

FLYHTASD™

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

FLYHTHealth™

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

FLYHTLog™

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

FLYHTMail™

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

FLYHTVoice™

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

FLYHTFuel™

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

Underfloor Stowage Unit

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

System Approvals

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

FLYHT has received STC approvals from TCCA (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			**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 Q1 2018

The International Air Transport Association's (IATA) quarterly industry results, measured in Revenue Passenger Kilometres (RPK) and Freight Tonne Kilometres (FTK) are the passenger and freight contributions to airline revenue and are significant markers to determine the health of the industry. Passenger traffic (measured in RPK) saw a 7.2% increase in the first quarter of 2018 compared to the same quarter the previous year. Demand in domestic markets, at 6.9%, was slightly lower than international travel at 7.4%[1]. Global freight traffic (measured in FTK) increased by 5.4% in the first quarter of 2018[2], with solid growth predicted for the remainder of the year, though not as strong as 2017.

Results from large commercial aircraft manufacturers were mixed for the first quarter of 2018. Airbus delivered 121 aircraft in the first quarter, compared to 136 in the same quarter of 2017[3]. Boeing saw positive results in their first quarter performance and delivered 184 aircraft compared to 169 in the first quarter of 2017[4]. Embraer announced the delivery of 14 commercial aircraft in the first quarter of 2018 compared to 18 in the first quarter of 2017. Embraer's executive jet deliveries were also slightly lower than in 2017, with 11 delivered during the start of this year compared to 15 in the first quarter last year[5]. Bombardier's commercial aircraft deliveries were down slightly to 13 deliveries in the first quarter of 2018 from 15 in 2017[6]. Bombardier's business aircraft were up to 31 compared to 29 in the same quarter last year[7].

Statistics from the General Aviation Manufacturers Association (GAMA) have not been released.

FLYHT's Market

FLYHT's technology is available to a number of sectors within the global aerospace industry. The Company's AFIRS product can be installed on commercial, business or military aircraft, although the latter category represents a small portion of current business. In addition, FLYHT's UpTime Cloud services are available to these market segments. The technology relies on the use of satellites for real-time communication with aircraft.

FLYHT remains an industry leader in real-time data streaming technology that enhances the efficiency and safety of aircraft. The Company focused on the development and launch of a cloud-based UpTime software over the past two years. UpTime Cloud marks an improvement over our previous technology, with configurability pushed to the customer and the ability to scale-up and increase the number of customers using the platform. FLYHT will continue to add functions and features to improve UpTime Cloud capabilities. Such features detect and notify the airline of problems while the aircraft is in flight and allow the operator to prepare for repairs before the aircraft lands, thereby reducing the financial impact of unscheduled maintenance. FLYHT also focused on industry trials in 2017. The Company developed its technology to stream data over the Inmarsat Satellite network for trials with Boeing and Inmarsat.

FLYHT has participated in industry events and working groups to demonstrate AFIRS' capabilities and the real-time data streaming enabled by FLYHTStream. FLYHT will continue to participate in industry working groups to advance engineering and technical requirements and prepare for future development of the AFIRS product line to meet industry needs.

FLYHT's primary sales target has been commercial passenger and air freight transport customers, while its secondary targets are business jet aircraft (used for business and personal travel) and military air transport aircraft that require AFIRS functionality. FLYHT's business relies primarily on retrofitting existing aircraft to provide recurring, real-time aircraft data services. It is FLYHT's objective to win additional positions on new aircraft through OEM partnerships, with a goal to fit AFIRS equipment on the aircraft during production so that UpTime Cloud services can be turned on immediately after delivery to the customer.

The weakening of the Canadian dollar relative to the U.S. dollar throughout Q1 2018 had a positive impact on the Company's revenue and income compared to Q1 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 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.

[1] http://www.iata.org/publications/economics/Reports/pax-monthly-analysis/passenger-analysis-mar-2018.pdf
[2] http://www.iata.org/publications/economics/Reports/freight-monthly-analysis/freight-analysis-mar-2018.pdf
[3] http://www.airbus.com/content/dam/corporate-topics/financial-and-company-information/Airbus_Financial_Results_Q12018_Press_Release.pdf
[4] http://s2.q4cdn.com/661678649/files/doc_financials/quarterly/2018/Q1/1Q18-Earnings-Release.pdf
[5] https://embraer.com/global/en/news#/906339-embraer-earnings-results-1st-quarter-2018
[6] https://www.bombardier.com/content/dam/Websites/bombardiercom/News/supporting-documents/Bombardier-Q1C2018-Highlights-BCA-en.pdf
[7] https://www.bombardier.com/content/dam/Websites/bombardiercom/News/supporting-documents/Bombardier-Q1C2018-Highlights-BBA-en.pdf

Contracts and Achievements of Q1 2018

Contracts

To end the quarter, FLYHT announced that an aggregate of USD $2.9 million in new sales contracts and purchase orders had been signed in the first quarter. Ten customers renewed their sales contracts for UpTime data services.

Achievements

In March, FLYHT announced Alana Forbes as the CFO and Steve Newell as the VP Business Development.

In March, FLYHT announced the achievement of two million flights on the UpTime services platform.

In the quarter, FLYHT was awarded STCs for AFIRS 228 by EASA for the Boeing 737-300/400/500/700/800, the Boeing 757-200 and the Boeing 767-200/300. FLYHT was also granted STCs from the FAA for the Boeing 737-900ER and Bombardier CRJ 100, 200, 440, 700, 705 and 900 models.

Results of Operations – three months ended March 31, 2018 and 2017

Selected Results

	Q1 2018 $	Q4 2017 $	Q3 2017 $	Q2 2017 $
Assets	5,711,684	6,994,139	6,556,520	7,116,576
Non-current financial liabilities	2,117,334	1,842,439	1,385,440	1,209,206
Revenue	3,318,311	3,454,661	3,221,380	3,242,382
Cost of sales	1,328,994	816,331	1,256,891	1,271,582
Gross margin	1,989,317	2,638,330	1,964,489	1,970,800
Gross margin %	59.9%	76.4%	61.0%	60.8%
Distribution expenses	1,240,609	1,170,695	1,166,972	1,418,610
Administration expenses	530,037	745,641	684,651	1,090,335
Research, development and certification engineering expenses	739,236	1,099,869	458,327	399,920
Results from operating activities	(520,565)	(377,875)	(345,461)	(938,065)
Depreciation	33,134	18,687	26,980	25,093
EBITDA*	(487,431)	(359,188)	(318,481)	(912,972)
Income (loss)	(582,375)	(432,324)	(501,975)	(1,016,845)
Income (loss) per share (basic)	(0.03)	(0.02)	(0.02)	(0.05)
Income (loss) per share (fully diluted)	(0.03)	(0.02)	(0.02)	(0.05)
	Q1 2017 $	**Q4 2016 $**	**Q3 2016 $**	**Q2 2016 $**
Assets	7,168,914	6,516,206	9,189,104	9,655,504
Non-current financial liabilities	1,072,848	974,749	996,121	1,002,872
Revenue	3,781,119	4,127,827	4,054,368	3,537,665
Cost of sales	1,184,575	1,034,450	1,346,341	1,278,746
Gross margin	2,596,544	3,093,377	2,708,027	2,258,919
Gross margin %	68.7%	74.9%	66.8%	63.9%
Distribution expenses	1,195,194	1,424,211	1,101,318	1,248,783
Administration expenses	638,120	719,097	626,733	1,103,399
Research, development and certification engineering expenses	561,158	725,739	550,443	336,871
Results from operating activities	202,072	224,330	429,533	2,793,032
Depreciation	22,148	18,687	16,302	15,562
EBITDA*	224,220	243,017	445,835	2,808,594
Income (loss)	119,404	79,709	303,890	2,572,061
Income (loss) per share (basic)	0.01	0.00	0.01	0.13
Income (loss) per share (fully diluted)	0.01	0.00	0.01	0.13

*See Non-GAAP Financial Measures
**2017 results have been adjusted for IFRS 15 impact

Financial Position

Liquidity and Capital Resource

The Company's cash at March 31, 2018 decreased to $629,650 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 March 31, 2018.

At March 31, 2018, the Company had positive working capital of $1,604,521 compared to positive $2,020,104 as of December 31, 2017, a decrease of $415,583. When non-refundable customer deposits, less deposits and prepaid expenses are excluded from the working capital calculation, the resulting modified working capital at March 31, 2018 would be positive $2,061,374 compared to positive $3,316,884 at December 31, 2017.

The Company funded Q1 2018 operations primarily through cash received from sales.

	March 31, 2018 $	December 31, 2017 $	Variance $
Cash and cash equivalents	629,650	2,014,135	(1,384,485)
Trade and other receivables	1,780,750	1,650,574	130,176
Contract assets	309,624	313,634	(4,010)
Deposits and prepaid expenses	381,707	391,191	(9,484)
Inventory	1,200,975	1,331,893	(130,918)
Trade payables and accrued liabilities	(1,728,376)	(1,868,563)	140,187
Customer deposits	(838,560)	(1,687,971)	849,411
Loans and borrowings	(117,569)	(112,578)	(4,991)
Current tax liabilities	(13,680)	(12,211)	(1,469)
Working capital	**1,604,521**	**2,020,104**	**(415,583)**
Deposits and prepaid expenses	(381,707)	(391,191)	9,484
Customer deposits	838,560	1,687,971	(849,411)
Modified working capital*	**2,061,374**	**3,316,884**	**(1,255,510)**

*See Non-GAAP Financial Measures

As at May 16, 2018, FLYHT's issued and outstanding share capital was 21,068,617.

The consistent achievement of positive earnings is necessary before the Company can consistently improve liquidity. The Company has continued to expand its cash flow potential through its continued marketing drive to clients around the world and contracts for delivery of AFIRS units and related services. It is the Company's intention to continue to fund operations by adding revenue and its resulting cash flow as well as continue to manage outgoing cash flows. If the need arises due to market opportunities, the Company may meet those needs via the capital markets.

For the Company to continue as a going concern longer-term, it will need to achieve profitability and may require additional financing to fund ongoing operations. If general economic conditions in the industry or the financial condition of a major customer deteriorates, or revenue streams and/or markets do not improve, then the Company may have to scale back operations to create positive cash flow from existing revenue and/or raise the necessary financing in the capital markets. These material uncertainties may cast significant doubt upon the Company's ability to continue as a going concern.

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

Financial Instruments

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

The Company may be exposed to changes in interest rates as a result of the operating loan bearing interest based on the Company's lenders' prime rate.

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

Contractual Obligations

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

March 31, 2018	< 2 months $	2-12 months $	1-2 years $	2-5 years $	> 5 years $	Total $
Accounts payable	1,198,855	-	-	-	-	1,198,855
Compensation and statutory deductions	52,378	317,738	-	-	-	370,116
Accrued liabilities	6,944	127,201	11,658	13,601	-	159,404
Loans and borrowings	119,333	-	137,234	1,913,027	855,073	3,024,667
Total	**1,377,510**	**444,939**	**148,892**	**1,926,628**	**855,073**	**4,753,042**

Operating lease rentals are payable as follows:

	Premises $
2018	347,009
2019	462,678
2020	462,678
2021	77,113
Total	**1,349,478**

Under SADI, the Company has, at March 31, 2018, an outstanding repayable balance of $1,626,814, unchanged from 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.

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 March 31, 2018, the Company had received contributions of $1,397,853.

A summary of the carrying value of the SADI and WINN loans as at March 31, 2018 and 2017 and changes during these three months is presented below.

	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	-	317,195	317,195	-	85,730	85,730
Grant portion	-	(109,630)	(109,630)	-	(32,035)	(32,035)
Interest accretion	52,125	20,196	72,321	48,052	695	48,747
Balance March 31	**1,214,804**	**1,020,099**	**2,234,903**	**1,120,693**	**54,390**	**1,175,083**
Less current portion	117,569	-	117,569	102,235	-	102,235
Non-current portion	1,097,235	1,020,099	2,117,334	1,018,458	54,390	1,072,848

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, the deposit is applied to clear the resulting trade receivable.

The chart below outlines the movement in the Company's customer deposits throughout the periods ending March 31, 2018 and 2017. Payment was received for 6 installation kits in the first quarter of 2018 compared to 14 received in the first quarter of 2017.

	Q1 2018 $	Q1 2017 $	Variance $
Opening balance	1,687,971	317,899	1,370,072
Payments received	425,795	1,281,665	(855,870)
Recognized as revenue	(1,275,206)	(898,008)	(377,198)
Balance, March 31	**838,560**	**701,556**	**137,004**

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 customers' usage of 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.

	Q1 2018 $	Q1 2017 $	Variance $
SaaS	1,043,030	1,154,473	(111,443)
AFIRS Hardware	1,566,270	1,070,064	496,206
Licensing	626,962	1,523,451	(896,489)
Technical Services	82,049	33,131	48,918
Total	**3,318,311**	**3,781,119**	**(462,808)**

Overall, total revenue decreased 12.3% from Q1 2018 to Q1 2017. AFIRS Hardware and Technical Services increased by 46.4% and 147.6% respectively, while there were decreases in SaaS (9.7%) and Licensing (58.8%).

SaaS decreased compared to last year's first 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 31.4% of revenue in Q1 2018 (Q1 2017: 30.5%). 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 Q1 2018 as compared to Q1 2017 due to increased shipments of installation kits, offset partially by lower sales of non-kit hardware. Revenue was recognized for 31 installation kits in 2018's first quarter compared to 11 in the first 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 lower number of technical services provided to customers throughout Q1 2018, mainly customized engineering documentation. 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.

	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016
SaaS	1,043,030	1,001,551	998,337	1,158,340	1,154,473	1,169,741	1,122,965	1,014,725
AFIRS Hardware	1,566,270	1,947,290	1,689,030	743,115	1,070,064	1,071,466	1,409,036	1,359,096
Licensing	626,962	444,931	465,422	1,318,497	1,523,451	1,874,660	1,505,801	1,054,087
Technical Services	82,049	60,889	68,591	22,430	33,131	11,960	16,566	109,757
Total	**3,318,311**	**3,454,661**	**3,221,380**	**3,242,382**	**3,781,119**	**4,127,827**	**4,054,368**	**3,537,665**

	Q1 2018 $	Q1 2017 $	Q1 2018 %	Q1 2017 %
North America	1,479,952	2,082,293	44.6	55.1
South/Central America	82,654	101,024	2.5	2.7
Africa	104,485	88,142	3.1	2.3
Middle East	1,131,109	258,808	34.1	6.8
Europe	61,189	71,830	1.8	1.9
Australasia	160,467	173,389	4.8	4.6
Asia	298,455	1,005,633	9.1	26.6
Total	**3,318,311**	**3,781,119**	**100.0**	**100.0**

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 first quarter of 2018 was 40.1% compared to 31.3% in 2017's first 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:

	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016
Gross Margin %	59.9	76.4	61.0	60.8	68.7	74.9	66.8	63.9
Cost of Sales %	40.1	23.6	39.0	39.2	31.3	25.1	33.2	36.1

Distribution Expenses

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

Major Category	Q1 2018 $	Q1 2017 $	Variance $
Salaries and benefits	626,689	720,134	(93,445)
Share based compensation	4,731	7,065	(2,334)
Contract labour	213,988	135,064	78,924
Office	92,432	105,937	(13,505)
Travel	153,326	145,837	7,489
Equipment and maintenance	21,569	11,101	10,468
Depreciation	7,774	7,564	210
Marketing	13,483	61,923	(48,440)
Other	106,617	569	106,048
Total	**1,240,609**	**1,195,194**	**45,415**

Distribution expenses increased compared to 2018 due mainly to an increase in bad debt reserve, less a decrease in marketing expenses.

Salaries and benefits have decreased primarily due to the replacement of one sales staff with a contractor, as can be seen in offsetting increases in Contract labour, together with an increased allocation of staffing costs based on research and development activities.

Marketing expense was higher in Q1 2017 than Q1 2018 primarily due to higher 2017 costs related to business expansion in China.

Other expense has increased due to an increase in bad debt reserve.

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	Q1 2018 $	Q1 2017 $	Variance $
Salaries and benefits	316,250	332,717	(16,467)
Share based compensation	-	25,940	(25,940)
Contract labour	8,745	69,312	(60,567)
Office	72,718	73,035	(317)
Legal fees	7,096	15,681	(8,585)
Audit and accounting	35,543	42,375	(6,832)
Investor relations	23,067	33,608	(10,541)
Brokerage, stock exchange, and transfer agent fees	4,330	5,648	(1,318)
Travel	8,243	6,566	1,677
Equipment and maintenance	35,538	20,215	15,323
Depreciation	16,246	10,517	5,729
Other	2,261	2,506	(245)
Total	**530,037**	**638,120**	**(108,083)**

Administration expenses have decreased by 16.9% from Q1 2017 to Q1 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 decreased as options issued to an investor relations consultant in Q1 2017 were not repeated in Q1 2018.

Research, Development and Certification Engineering Expenses (Recovery)

Major Category	Q1 2018 $	Q1 2017 $	Variance $
Salaries and benefits	696,350	379,685	316,665
Contract labour	81,845	98,868	(17,023)
Office	12,270	25,202	(12,932)
Travel	23,850	26,250	(2,400)
Equipment and maintenance	28,648	29,589	(941)
Components	(3,232)	29,533	(32,765)
Depreciation	9,135	4,066	5,069
Government grants	(109,630)	(32,035)	(77,595)
Total	**739,236**	**561,158**	**178,078**

Research and Development expense was 31.7% higher in Q1 2018 than Q1 2017 due mainly to increased staffing costs 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.

Components requirements decreased as a higher number of expensed parts were used in development and testing activities in Q1 2017.

Government grants increase was due to differences in contributions received from WINN from Q1 2017 to Q1 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	Q1 2018 $	Q1 2017 $	Variance $
Interest (income)	(4,255)	(1,769)	(2,486)
Net foreign exchange loss (gain)	(15,472)	25,888	(41,360)
Bank service charges	8,047	6,306	1,741
Interest expense	47	491	(444)
Government loan accretion	72,321	48,747	23,574
Net finance costs (income)	**60,688**	**79,663**	**(18,975)**

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 Q1 2018, 99.6% of the Company's gross sales were made in U.S. dollars, compared to 98.6% in Q1 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	Q1 2018 $	Q1 2017 $	Variance $
Net income (loss)	(582,375)	119,404	(701,779)

Other

Recent Accounting Pronouncements

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

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

Foreign currency fluctuations

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

General economic and financial market conditions

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

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

Dependence on key personnel and consultants

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

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

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

Proprietary protection
Patent rights are extremely important to the continuation of the Company because the AFIRS technology is the Company's primary revenue source. The Company relies on contract, copyright and trademark laws and has received patents from the United States, Chinese, Turkish and European patent offices. These patents are generally respected in other international jurisdictions as well. The risks involved with proprietary protection lie in other companies infringing on FLYHT patents or claiming patent infringement by FLYHT, though the Company has defended patent claims in court and been successful. FLYHT conducted due diligence on its technology and the conditions of its patent before applying and maintains that it holds unique characteristics from other technologies in the marketplace and does not infringe on the rights of any third parties.

Transactions with Related Parties

FLYHT appointed an interim CFO from June 5 to November 5, 2017. The services were provided by a company controlled by a director of FLYHT. This company also provided certain financial services in Q1 2018. All of the transactions with the related party were at exchange amounts that approximated fair value.

	For the three months ended March 31	
	2018	**2017**
Amounts included in:	**$**	**$**
Contract labour	4,800	-
Accounts payable and accrued liabilities	4,800	-

Contractual Arrangement

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

Subsequent Events

In April 2018, the Company applied to the TSX for an amendment of the exercise price of the share purchase warrants that were originally issued on May 12, 2016 from $2.50 to $1.60 per share purchase warrant. The amendment was approved by the TSX. In May 2018, 10,000 of these warrants were exercised for proceeds of $16,000. The remaining unexercised warrants expired on May 12, 2018.

The Company retained Adelaide Capital Markets Inc. to provide investor relations services effective May 15, 2018.

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 months ended March 31, 2018 and March 31, 2017.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION (UNAUDITED)

	March 31, 2018 $	December 31, 2017 $
Assets		
Current assets		
Cash and cash equivalents	629,650	2,014,135
Trade and other receivables	1,780,749	1,650,574
Contract assets	309,624	313,634
Deposits and prepaid expenses	381,707	391,191
Inventory	1,200,975	1,331,893
Total current assets	4,302,705	5,701,427
Non-current assets		
Property and equipment	396,804	398,272
Intangible assets	34,992	34,992
Inventory	977,183	859,448
Total non-current assets	1,408,979	1,292,712
Total assets	**5,711,684**	**6,994,139**
Liabilities		
Current liabilities		
Trade payables and accrued liabilities	1,728,376	1,868,563
Customer deposits	838,560	1,687,971
Loans and borrowings (note 8)	117,569	112,578
Current tax liabilities	13,680	12,211
Total current liabilities	2,698,185	3,681,323
Non-current liabilities		
Loans and borrowings (note 8)	2,117,334	1,842,439
Provisions	90,490	91,713
Total non-current liabilities	2,207,824	1,934,152
Total liabilities	**4,906,009**	**5,615,475**
Equity		
Share capital	58,409,225	58,409,225
Warrants	911,282	911,282
Contributed surplus	9,354,602	9,349,871
Deficit	(67,869,434)	(67,291,714)
Total equity	805,675	1,378,664
Total liabilities and equity	**5,711,684**	**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 March 31	
	2018	2017
	$	$
Revenue (note 7)	3,318,311	3,781,119
Cost of sales	1,328,994	1,184,575
Gross profit	1,989,317	2,596,544
Distribution expenses	1,240,609	1,195,194
Administration expenses	530,037	638,120
Research, development and certification engineering expenses	739,236	561,158
Income (loss) from operating activities	(520,565)	202,072
Finance (income)	(19,727)	(1,769)
Finance costs	80,415	81,432
Net finance costs	60,688	79,663
Income (loss) before income tax	(581,253)	122,409
Income tax expense	1,122	3,005
Income (loss) for the period	(582,375)	119,404
Total comprehensive income (loss) for the period	(582,375)	119,404
Income (Loss) per share		
Basic and diluted income (loss) per share (note 6)	(0.03)	0.01

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 (DEFICIENCY) (UNAUDITED)

For the three months ended March 31, 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	(67,550,815)	1,119,563
Adjustment on initial application of IFRS 15	-	-	-	263,756	263,756
Balance at December 31, 2017 (note 3)	58,409,225	911,282	9,349,871	(67,287,059)	1,383,319
Income for the period	-	-	-	(582,375)	(582,375)
Total comprehensive income for the period	-	-	-	(582,375)	(582,375)
Contributions by and distributions to owners					
Share-based payment transactions	-	-	4,731	-	4,731
Total contributions by and distributions to owners	-	-	4,731	-	4,731
Balance at March 31, 2018	58,409,225	911,282	9,354,602	(67,869,434)	805,675
Balance at December 31, 2016 (previously reported)	57,514,646	1,139,934	9,017,979	(65,795,200)	1,877,359
Adjustment on initial application of IFRS 15	-	-	-	339,881	375,665
Balance at December 31, 2016 (note 3)	57,514,646	1,139,934	9,017,979	(65,455,319)	2,253,024
Loss for the period	-	-	-	119,404	119,404
Total comprehensive loss for the period	-	-	-	119,404	119,404
Contributions by and distributions to owners					
Share-based payment transactions	-	-	33,005	-	33,005
Share options exercised	88,185	-	(30,043)	-	58,142
Warrants exercised	243,641	(108,134)	-	-	135,507
Total contributions by and distributions to owners	331,826	(108,134)	2,962	-	226,654
Balance at March 31, 2017	57,846,472	1,031,800	9,020,941	(65,335,915)	2,599,082

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 three months ended March 31	
	2018	2017
	$	$
Cash flows from (used in) operating activities		
Income (loss) for the period	(582,375)	119,404
Depreciation – property plant and equipment	33,154	22,148
Grant portion of contributions from WINN (note 8)	(109,630)	(32,035)
Government grant accretion	72,321	48,747
Equity-settled share-based payment transactions	4,731	33,005
Change in inventories	13,183	227,717
Change in trade and other receivables	(77,043)	(344,947)
Change in contract assets	4,010	(108,122)
Change in prepayments	9,484	(166,037)
Change in trade and other payables	(183,988)	279,456
Change in customer deposits	(849,411)	383,657
Change in provisions	(1,223)	19,874
Change in unearned revenue	-	(4,949)
Unrealized foreign exchange	(17,916)	104,661
Interest expense	47	491
Interest paid	(47)	(491)
Interest income	(4,255)	(1,769)
Interest received	4,255	1,769
Income tax expense	1,469	3,005
Net cash from (used in) operating activities	(1,683,234)	585,584
Cash flows used in investing activities		
Acquisitions of property and equipment	(31,686)	(93,366)
Net cash used in investing activities	(31,686)	(93,366)
Cash flows from (used in) financing activities		
Proceeds from exercise of share options and warrants	-	193,649
Contributions from WINN (note 8)	317,195	85,730
Payment of finance lease liabilities (note 8)	-	(6,375)
Net cash from (used in) financing activities	317,195	273,004
Net increase (decrease) in cash and cash equivalents	(1,397,725)	765,222
Cash and cash equivalents, beginning	2,014,135	709,958
Effect of exchange rate fluctuations on cash held	13,240	(20,377)
Cash and cash equivalents, ending	629,650	1,454,803

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 months ended March 31, 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 first set of FLYHT's financial statement 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 May 16, 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 March 31, 2018, the Company had positive working capital of $1,604,521, a deficit of $67,869,434, net loss of $582,375 and cash flow used in operating activities of $1,683,234 for the quarter.

The consistent achievement of positive earnings is necessary before the Company can consistently improve liquidity. The Company has continued to expand its cash flow potential through its continued marketing drive to clients around the world and contracts for delivery of AFIRS units and related services. It is the Company's intention to continue to fund operations by adding revenue and its resulting cash flow as well as continue to manage outgoing cash flows. If the need arises due to market opportunities, the Company may meet those needs via the capital markets.

For the Company to continue as a going concern longer-term, it will need to achieve profitability and may require additional financing to fund ongoing operations. If general economic conditions in the industry or the financial condition of a major customer deteriorates, or revenue streams and/or markets do not improve, then the Company may have to scale back operations to create positive cash flow from existing revenue and/or raise the necessary financing in the capital markets. These material uncertainties may cast significant doubt upon the Company's ability to continue as a going concern.

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

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 March 31		**2017 $**	
	Previously reported	IFRS 15 adjustments	Amounts adjusted for IFRS 15
Revenue	3,729,082	52,037	3,781,119
Cost of sales	1,138,602	45,973	1,184,575
Gross profit	**2,590,480**	**6,064**	**2,596,544**

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)	(65,795,200)	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.

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

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

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

6. Earnings per share

Basic earnings per share

The calculation of basic and diluted earnings per share for the quarter ended March 31, 2018 was based on a weighted average number of common shares outstanding of 21,058,617 (basic and diluted) (Q1 2017: basic 20,828,604 and diluted 21,130,718). The calculation of diluted earnings per share did not include stock options of 886,209 (Q1 2017: 704,717) and warrants of 1,712,431 (Q1 2017: 1,816,684) 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 March 31	
	2018	**2017**
	$	**$**
North America	1,479,952	2,082,293
South / Central America	82,654	101,024
Africa	104,485	88,142
Middle East	1,131,109	258,808
Europe	61,189	71,830
Australasia	160,467	173,389
Asia	298,455	1,005,633
Total	**3,318,311**	**3,781,119**

The following revenue is based on timing of revenue recognition.

	For the three months ended March 31	
	2018	**2017**
	$	**$**
Products transferred at a point in time	2,193,232	2,593,515
Products and services transferred over time	1,125,079	1,187,604
Total	**3,318,311**	**3,781,119**

The following shows revenue per major product and service categories.

	For the three months ended March 31	
	2018	**2017**
	$	**$**
SaaS	1,043,030	1,154,473
AFIRS Hardware	1,566,270	1,070,064
Licensing	626,962	1,523,451
Technical Services	82,049	33,131
Total	**3,318,311**	**3,781,119**

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 48.9% of the Company's total revenues for the quarter ended March 31, 2018 (Q1 2017: 56.8%).

8. Cash flow movement of liabilities arising from financing activities

	Loans and borrowings		
	SADI	WINN	Total
As at January 1, 2018	1,162,679	792,338	1,955,017
Contributions	-	317,195	317,195
Grant portion of contributions	-	(109,630)	(109,630)
Loan accretion	52,125	20,196	72,321
As at March 31, 2018	1,214,804	1,020,099	2,234,903
Less current portion	117,569	-	117,569
Non-current portion	1,097,235	1,020,099	2,117,334

In 2016, the Company signed a contribution agreement with Western Economic Diversification Canada for a Western Innovation initiative (WINN) contribution to support plans for technology development in the air and ground components of the products. Under the terms of the agreement, a repayable WINN contribution to the value of the lesser of 50% of the eligible project costs to December 10, 2018 or $2,350,000 will be received. The amount is repayable over five years commencing January 1, 2020. In Q1 2018, the Company received a contribution of $317,195 under this agreement (2017: $85,730), bringing the cumulative total received to $1,397,853.

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 Q1 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 three months ended March 31, 2018	
	2018	2017
Amounts included in:	$	$
Contract labour	4,800	-
Accounts payable and accrued liabilities	4,800	-

10. Subsequent events

In April 2018, the Company applied to the TSX for an amendment of the exercise price of the share purchase warrants that were originally issued on May 12, 2016 from $2.50 to $1.60 per share purchase warrant. The amendment was approved by the TSX. In May 2018, 10,000 of these warrants were exercised for proceeds of $16,000. The remaining unexercised warrants expired on May 12, 2018.

The Company retained Adelaide Capital Markets Inc. to provide investor relations services effective May 15, 2018.

CORPORATE INFORMATION

Registrar and Transfer Agent

Computershare Trust Company of Canada
Telephone: 1-403-267-6800
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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Directors

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

Officers

Thomas R. Schmutz	Chief Executive Officer
Alana Forbes	Chief Financial Officer
Derek Graham	Chief Technical Officer
David Perez	Vice President Sales and Marketing
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