

**2020**

**THIRD QUARTER**

FLYHT AEROSPACE SOLUTIONS LTD.



***Flight***<sup>TM</sup>

Insight • Action • Control

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## Commonly used Financial Terms and Aviation Acronyms

<b>ACARS:</b>	Aircraft Communications Addressing and Reporting System
<b>ADS-C</b>	Automatic Dependent Surveillance - Contract
<b>AFIRS™:</b>	Automated Flight Information Reporting System
<b>ANAC:</b>	National Civil Aviation Agency of Brazil
<b>CAAC:</b>	Civil Aviation Administration of China
<b>CARES:</b>	The Coronavirus Aid, Relief, and Economic Security Act
<b>CEWS:</b>	Canadian Emergency Wage Subsidy
<b>CPDLC</b>	Controller Pilot Data Link Communications
<b>DAO:</b>	Design Approval Organization
<b>DGAC:</b>	Direccion General de Aeronautica Civil (Mexico's certification organization)
<b>EASA:</b>	European Aviation Safety Agency
<b>EBITDA:</b>	Earnings before interest, taxes, depreciation and amortization
<b>ECAA:</b>	Egyptian Civil Aviation Authority
<b>FAA:</b>	Federal Aviation Administration
<b>FANS</b>	Future Air Navigation System
<b>FlightLink™:</b>	An Iridium Satellite Data Unit
<b>GAAP:</b>	Generally Accepted Accounting Principles
<b>GAMECO:</b>	Guangzhou Aircraft Maintenance Engineering Company Limited
<b>IATA:</b>	International Air Transport Association
<b>ICAO:</b>	International Civil Aviation Organization
<b>IFRS:</b>	International Financial Reporting Standards
<b>MD&amp;A:</b>	Management Discussion and Analysis
<b>OEM:</b>	Original Equipment Manufacturer
<b>PAC:</b>	Panasonic Avionics Corporation
<b>PPP:</b>	Paycheck Protection Program
<b>PWS:</b>	Panasonic Weather Solutions
<b>QTD:</b>	Quarter-to-date
<b>R&amp;D:</b>	Research and Development
<b>SAAS:</b>	Software as a Service
<b>SADI:</b>	Strategic Aerospace and Defence Initiative
<b>SAAU:</b>	State Aviation Authority of Ukraine
<b>STC:</b>	Supplemental Type Certificate
<b>TAMDAR™:</b>	Tropospheric Airborne Meteorological Data Reporting
<b>TCCA:</b>	Transport Canada Civil Aviation
<b>WINN:</b>	Western Innovation Initiative
<b>YTD:</b>	Year-to-date

# LETTER TO SHAREHOLDERS



Q3 2020 has been one for the record books. We have been very pleased to see that our customers have started a slow recovery from the COVID-19 lows of May 2020, with consistent increases in the number of flights and hours month over month. This quarter was a challenging quarter with all revenue categories well below average and far below last quarter in most cases. There were virtually no hardware or licensing sales, and both certification and SaaS revenues are still substantially impaired by the COVID-19 pandemic.

Even with revenue taking a huge hit, it was an encouraging sign to see our receivables begin to come back down as customers started paying their outstanding invoices. The combination of these payments, careful cash management and government support programs allowed us to improve our cash balance compared to the first two quarters of the year, despite the unprecedented revenue headwinds.

We are excited to have spent this quarter re-training staff to take advantage of agile development methodologies and to invest in the use of new tools to begin the delivery of Actionable Intelligence. We have also taken this time to clear a significant portion of our outstanding client development deliverables through a combination of working solutions, the removal of some requests that have been solved differently by the availability of Actionable Intelligence, or in the case of other items that were logged to our workload but are no longer required as our customers' businesses have changed. These activities have cleared the path for our software development team to focus on delivering Actionable Intelligence functionality. The reaction to Actionable Intelligence has been promising with many existing customers excited to adopt these technologies as they become available and with two customers actively engaged in the program.

We are confident that with the efforts we are putting into IR, the marketing of our product suite, the development and deployment of new products and the general recovery of the market, our stock will follow these developments to more accurately reflect the strengths of our company.

During the third quarter we moved the Calgary head office to a facility that better suits our staff and work methods. We still have the majority of our staff working from home to avoid any possible COVID spread. We are looking forward to the day when we can all gather in the office and enjoy each others' company, share the successes of our new development efforts and host customers onsite to see our new products firsthand. We have seen good productivity from our people who worked from home during these trying times, but know that a great team working in a positive environment, producing exciting products for customers is rewarding for all and we all yearn for the good old days, like February. We have been fortunate to avoid any cases to date. The Flyht team has taken every precaution recommended by health authorities to make sure that we have a safe environment and that people who need to work from home or are more comfortable away from everyone, have that option available to them.

We are looking forward to recovering from the blows dealt by the pandemic and feel very positive that we are well positioned to help our customers as their businesses recover, with the right team in place to use the new technologies to deliver on the industry stated goals of using digital technology and artificial intelligence to assist in recovery. Our efforts in recent months to refocus, retrain and return to our roots as a SaaS provider to the airlines will be the linchpin to our success as our customers recover and people's lives return to normal.

Yours Truly

A blue ink handwritten signature of William T. Tempany.

William T. Tempany  
Interim Chief Executive Officer

# MANAGEMENT DISCUSSION & ANALYSIS

This management discussion and analysis (“MD&A”) is as of November 5, 2020 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, 2019 and 2018 and the accompanying notes. Additional information with respect to Flyht can be found on SEDAR at [www.sedar.com](http://www.sedar.com). The Company has prepared its September 30, 2020 condensed consolidated interim 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, and earnings before interest, income tax, depreciation and amortization (EBITDA). Flyht defines working capital as current assets less current liabilities. 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 and the letter to the shareholders accompanying this discussion includes certain statements that may be deemed “forward-looking statements” or “forward-looking information” 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, litigation matters, and sales order backlog 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.

Forward-looking information is based on the opinions and estimates of management at the date the statements are made and are founded on the basis of expectations, assumptions and hypotheses made by the Company, including, but not limited to, the following: projected costs, future plans, projected revenues, objectives of management for future operations, trends in the airline industry, the global financial outlook, including, but not limited to, the effects of the COVID-19 virus being experienced worldwide, expanding markets, foreign exchange rate outlooks, sales projections, cost increases and/or decreases as related to marketing, R&D, administration expenses. The forward-looking information included in this this discussion and the letter to the shareholders accompanying this discussion has been prepared using assumptions (all of which are supportable and reflect the Company’s planned courses of action for the next 12 months) as to the *most probable* set of economic conditions. Such assumptions are consistent with the purpose of the information but are not necessarily the most probable in management’s judgement. 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, including, but not limited to, the effects of the COVID-19 virus being experienced worldwide, 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. The forward-looking information has been provided to the readers to assist in assessing the impact of the information disclosed herein on the Company and such forward-looking information may not be appropriate for other purposes. We undertake no duty to update any of the forward-looking information to conform such information to actual results or to changes in our expectations except as otherwise required by applicable securities legislation. Readers are cautioned not to place undue reliance on forward-looking information.

# Flyht Overview

Flyht provides airlines with Actionable Intelligence to transform operational insight into immediate, quantifiable action, delivering industry leading solutions to improve aviation safety, efficiency and profitability. This unique capability is driven by Flyht's patented aircraft certified hardware products including AFIRS™, a satcom aircraft interface device which enables real-time streaming of flight information, cockpit voice and black box data streaming and TAMDAR™, which aggregates and streams airborne weather data in real-time. Flyht is headquartered in Calgary, Canada with an office in Littleton, Colorado, and is an AS9100 Quality registered company. For more information, view our latest presentation here, or visit [www.flyht.com](http://www.flyht.com).

Flyht's products are designed to work seamlessly to provide excellent value to our customers by having customizable access to real-time data from the aircraft, integrated with the information from systems operated by the airline, airport, service providers or others that can impact the operation of the aircraft. Flyht has returned to its roots as a Software as a Service ("SaaS") provider with the benefit of having access to data that no other company has. The combination of airborne hardware and software make this a powerful driver for Actionable Intelligence.

## 1. Airborne Hardware

### AFIRS™

The Automated Flight Information Reporting System (AFIRS) is a device installed on aircraft that captures and monitors hundreds of essential functions from the aircraft including data recorded by the flight data recorder (the "black box"). AFIRS sends this information through satellite networks to Flyht's servers, which route the data to customer-specified end points and supply data to our solutions which display real-time fleet visualizations and actionable fleet intelligence.

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. The system supports a number of value-added solutions including tracking aircraft and monitoring aircraft health to weather observations. Flyht's global satellite coverage is enabled by the Iridium satellite network, providing service to our customers anywhere on the planet.

Additionally, AFIRS is unsurpassed when it comes to automating the collection and dissemination of block and flight times. Accurate Out-Of-On-In (OOOI) times translate directly into optimal crew utilization ensuring flight crews do not time-out ahead of schedule. Accurate hour and cycle information also extends the time between maintenance intervals maximizing utilization of life-limited parts. Precise OOOI times lead to financial savings for operators on a power-by-the-hour or lease contracts with a utilization component.

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 228S features cater to the evolving needs of airlines by providing a customizable 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.

Our systems and solutions can provide enhanced global flight tracking capabilities that meet and exceed ICAO's Global Aeronautical Distress and Safety System (GADSS) definitions for both normal and abnormal tracking.

Our CAN-TSO-C159b Iridium SATCOM solution provides the aircraft with reliable FANS 1/A, ADS-C, CPDLC and ACARS over Iridium messaging capabilities. Benefits offered by FANS include a more efficient route structure, reduced flight times, reduced fuel burns, and enhanced communications between Air Traffic Control (ATC) and the aircraft.

### TAMDAR

Flyht's Tropospheric Airborne Meteorological Data Reporting (TAMDAR) system is a unique sensor device installed on aircraft that captures temperature, pressure, winds aloft, icing, turbulence and relative humidity. It bundles the data with Global Positioning System (GPS) data and transmits the information in real-time over satellite networks. TAMDAR provides real-time, high-quality atmospheric data collected from 200+ aircraft in North America, Asia, and Europe through frequent soundings (thousands per day) and continuous observations including all of the metrics of Radiosonde observations plus icing and turbulence.

Like the data traditionally gathered by weather balloons worldwide, this information collected by TAMDAR is used to update weather models. Unlike weather balloons, TAMDAR collects the data continuously and in real-time by transmitting "soundings" or batches of data to airline ground operations or weather offices.

TAMDAR technology is protected by several U.S. and worldwide patents. The relative humidity data, gathered throughout an aircraft's flight, makes these weather soundings particularly valuable to meteorologists.

## 2. Supporting Applications

Flyht sells innovative technology solutions which use the data collected by our avionics systems to provide valuable business intelligence which aircraft operators can use to streamline and optimize operations and proactively enhance safety.

### *AirMap™*

Flyht's AirMap application provides real-time monitoring and insight of fleets through the application's Aircraft Situational Display (ASD) and an Aircraft Messaging Center (AMC). AirMap offers a new way to run Aircraft Operations Centers by maximizing automation through intelligent data, alerts, and real-time status updates through an easy-to-use interface which visualizes situational data. AirMap is also scalable and flexible as it supports integration with external feeds for position and weather information.

AirMap enhances other Flyht products with flight tracking, and Out-Of-On-In (OOOI) messaging so customers can "visualize" and seamlessly communicate with their fleets of aircraft through AirMap's Aircraft Situational Display (ASD). Additional capabilities include an ACARS communications function for pilots and the ability to ingest flight plans as baselines so that flight deviations or indications of "low fuel relative to plan" trigger operational alerts.

AirMap ASD is the primary interface for monitoring the overall fleet status. It is a powerful tool that aggregates a wide array of aircraft and fleet data into an optimized display of visualized fleet intelligence.

### *UpTime™*

UpTime is a ground-based, enterprise server that communicates with AFIRS through satellite connectivity and serves our customers with real-time applications. UpTime was originally implemented on a fixed server and some of Flyht's customers still receive services via redundant servers located in different cities across Canada. In 2017, Flyht launched UpTime Cloud and began re-hosting and enhancing aspects of the UpTime server onto the Amazon Web Services (AWS) Cloud. Flyht hosts Cloud instances in different countries according to customer needs and requirements. Customers access their UpTime accounts and data through a secure internet login. From their account, customers can enable, configure, and manage deployed AFIRS units around the globe as well as upgrade unit software. UpTime has many operational components which aid in aircraft operations, maintenance, and ground operations as well as flight planning and scheduling.

UpTime uses real-time flight data acquired from the aircraft's onboard systems to present the data through intuitive dashboard visualizations. The dashboard compares how the aircraft was flown to how it could be flown in order to maximize efficiency and fuel savings. The data that is collected is based on eight industry recognized fuel savings initiatives including: single engine taxi out, reduced flap takeoffs, reduced acceleration altitude, low drag approaches, reduced flap landings, idle reverse, single engine taxi in, and APU monitoring.

### *Actionable Intelligence*

The unique combination of these tools allows Flyht to deliver an incredibly valuable entrance into the world of artificial intelligence through the deployment of our Actionable Intelligence platform. Flyht's Actionable Intelligence provides insight into our partners' total operations to find areas for improvement. That insight triggers actions based upon rules or previous observations to direct corrective action in near real time. These steps allow the airline to control profitability of their operations, improving customer satisfaction with better on time performance and allows for empowered employees who solve problems on the spot. Airlines need to align the passenger experience, airline operations and positive working environment for enhanced profit opportunity with a seamless technology partnership.

Our Actionable Intelligence will take advantage of health monitoring solution and consists of three different but related functions: automated engine trend reporting, real-time engine and airframe exceedance monitoring, and remote real-time diagnostics to provide instruction to personnel that will improve profitability by reducing communications and remediation actions.

Engine trend reporting automates the delivery of required engine trend data to engine manufacturers and third-party maintenance support companies to satisfy engine warranty requirements.

Exceedance monitoring keeps watch over thousands of aircraft data parameters and creates automated exceedance reports when an out of bounds condition exists on the aircraft.

Automated reports with configurable reporting intervals notify the airline when a maintenance event has occurred. The airline can then use Flyht's real-time diagnostics capabilities to interrogate aircraft systems and identify the source of problems in-flight to preemptively initiate repair protocols and logistics planning—long before the aircraft lands at its destination.

By automating and enhancing the real-time and long-term monitoring of airplane data, these tools also enables proactive management of maintenance and reduces aircraft "turn-times" and downtimes, and subsequently also the operational and financial impact of unscheduled maintenance.

Logging enables operators to monitor the status and phase of flight of their aircraft and collect detailed Out, Off, On and In (OOOI) time information. Airlines can also automatically route the collected aircraft system and operational data to various partner systems. With increased situational awareness and more accurate flight times, airlines can save money on flight crew pay, operating costs, and maintenance operations. The addition of messaging between the aircraft and the ground crews will reduce turn times and therefore enhance profitability for our customers.

Specific features include built-in visual and audible alerts along with email and text notifications, access to historical data, as well as fully configurable distress tracking capabilities.

Operators can configure automated, manual, and autonomous distress tracking capabilities down to a minimum resolution of 20 seconds. As well, using Flyht's technology, customers are able to remotely configure their software directly from their custom-configured, ground user interface.

Actionable Intelligence includes a powerful solution that focuses attention on areas of greatest savings potential to provide information necessary in making operational decisions. Some airlines currently rely on a time-consuming process of manually generating and analyzing reports to make fuel savings decisions.

The system is both a report generation tool and a dynamic, interactive solution that generates alerts and provides operators with the ability to quickly identify trends. The dashboard compares how pilots are operating the aircraft to how they could be flying, to maximize efficiency and fuel savings.

This unique and intuitive application highlights exceptions to best practices, provides quick drill downs to spot the root cause of issues, identifies trends, and displays associated costs. The solution can be tailored to meet pilot union privacy regulations.

### **3. Communications**

Flyht provides two-way text messaging to the flight deck 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 in real-time. Real-time text messaging helps manage diversions due to weather, mechanical issues, or other unforeseen situations making it easy for the flight crew and dispatch personnel to keep each other updated on the progress of their flight or any required deviations from plan. Our latest auxiliary hardware tools provide both power and connectivity to the devices used by the pilots to create a safe reliable platform for EFBs.

Our voice solution uses the Iridium satellite constellation with global coverage and an onboard satellite phone to provide a rapid and reliable private communication channel to the flight deck. When operating remote or oceanic flights, this allows dispatch to supply updated information to the crew with no delay. The voice capability is particularly valuable during emergency situations or for managing irregular operations or changes to flight plans. It also operates in remote regions with little to no VHF/HF coverage.

#### ***FlyhtStream™***

Streaming is a revolutionary, industry-leading solution that performs real-time triggered alerting and black box data streaming in the event of an abnormal situation on an aircraft. This function can be activated automatically by a set of pre-determined factors by the pilots or on the ground by airline operations.

It uses the AFIRS onboard logic and processing capabilities in combination with ground-based servers to interpret and route alerts and messages to key groups on the ground, such as the airlines, operation centers, and regulators. Animation software converts the raw FDR data into visualizations that can be viewed from any computer to provide ground personnel a view of the controls to get exact insight into what is happening onboard the aircraft. Flyht has been awarded Canadian, U.S., and Chinese patents for this data-streaming technology, (pending in other countries).

#### ***Weather Observations***

Weather Observations is a solution that leverages our patented TAMDAR sensor system which collects real-time weather. This application will provide customers with weather observations as well as icing and turbulence.

Provided as an integrated solution to AirMap, our Weather Observations product will provide a visualization of flight information along with weather data and overlays. As well, the interface will provide access to the collected "soundings" page which shows Skew-T diagrams (one of four thermodynamic diagrams commonly used in weather analysis and forecasting) from equipped aircraft.

In warm regions Weather Observation data can help determine if thunderstorms may develop or if there is potential for a storm to produce hail, downbursts, or tornadoes. In cold regions the Weather Observation data can help evaluate the temperature profile which is crucial for identifying the precipitation type such as rain, freezing rain, or snow. This kind of predictive weather intelligence can help flights avert weather systems that may impact fuel consumption and flight comfort as well as help re-route for airport closures or plan for ground-support and gate shutdowns due to severe weather.

## System Approvals

Flyht holds FAA Parts Manufacturer Approval (PMA), is a TCCA Approved Manufacturer, a TCCA Approved Maintenance Organization (AMO) and an EASA and 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's quality system is AS9100 certified with the registrar SAI Global as a multiple site structure covering the Calgary and Littleton facilities. The Company also holds multiple STCs to make appropriate modifications, such as installing Flyht's AFIRS, FlightLink and TAMDAR technologies, to an aircraft's approved design.

Flyht has STC approvals from TCCA (Canada), FAA (United States), EASA (European Union), CAAC (China), ANAC (Brazil), DGAC (Mexico), SAAU (Ukraine) and ECAA (Egypt) for various aircraft models to address a variety of customer requirements. Flyht is currently pursuing STC validation from the Federal Air Transport Agency of Russia.

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 and TSOs 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 delegated engineers, allowing for the approval of changes to the structural or systems and electrical design aspects of an airworthiness certification. If an issue is encountered during the STC or TSO process, the delegate has the authority to approve necessary changes and continue the process without the involvement of an external party.

Further, for Flyht-held FAA STCs, Flyht has a Minor Change Agreement with the FAA which allows a range of changes to be made to the STC data package without direct involvement from the FAA.

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 by opening an application with the regulator before an STC package is created. The data package is prepared, including engineering documents outlining how Flyht equipment is substantiated and installed on the aircraft, and the package is submitted to the regulator 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 the regulator, confirming all regulatory requirements have been met and the unit is fit for operation on that aircraft type as designed. From there, the regulator approves the submission and an STC is issued.

To acquire an STC validation from a different national regulator, Flyht submits an application through a regulator such as 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 approval process will vary depending on aircraft and workloads, but typically take about three to four months through TCCA, with an additional three to eight months if an STC is required from an additional regulator like the FAA or EASA.

### STC Chart: AFIRS and UpTime

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
P										Airbus A330
	A		A					A		ATR42 -300
	A		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	I	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		A				I			Bombardier DHC 8 -400
A	A	A	A	A	I		A			Bombardier CRJ 100, 200, 440
	A		A		I		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		A					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 received AFIRS 228 STCs for the Boeing 737-300, -400, -500, -700, -800 and the 767-300 from the State Aviation Administration of the Ukraine (SAAU). AFIRS 228 applications are also in progress with the Federal Air Transport Agency of Russia for the Boeing 737, 757 and 767 aircraft.

### STC Chart: FlyhtWeather

FAA		EASA		DGCA Indonesia		DCA Malaysia		DGAC Mexico		CAA Philippines		CAA Thailand		
TR	FL	TR	FL	TR	FL	TR	FL	TR	FL	TR	FL	TR	FL	
		A*	A*	A*	A*	A*	A*			A*	A*	A*	A*	Airbus A318/A319/A320/A321
		A*												Boeing 757
A*	A*			A*	A*	A*	A*							Boeing 737-700/800/900
A*	A*	A*	A*											Boeing 737Max-8/9
A														DHC-8-100/200/300/400
A								A						EMB 135/145
A								A						EMB ERJ 190-100/200
		A*												EMB ERJ 190-100/200
A														Hawker Beechcraft 1900
A														Saab 340
A	A													Saab 2000

Chart Legend: TAMDAR (TR) or FLIGHTLINK (FL) model, A = Approved, P = Pending, I = In Progress \* = Partnered with 3<sup>rd</sup> party, ‡ = Approval in progress.

## Trends and Economic Factors

Flyht examines the results of measurements made by leading aviation associations and corporations in order to gain insight on the status of the industry. These trends and economic factors summarized the industry in the third quarter of 2020; however, there has been substantial change in the industry since the worldwide impact of the COVID-19 pandemic. Many commercial airlines and aircraft leasing organizations are facing extreme stress at the time of this writing and several may enter bankruptcy as a result. As airlines experience financial stress, so do suppliers to that industry, such as Flyht. For virtually all airlines, cash flow is drastically reduced, and this will impact the airline industry's ability to pay for services and capital expansion, which will cause a decrease in spending in these areas. A May 2020 ANNA.aero global survey found that over the next two years:

- 68.4% of respondents expect investment in digital transformation to increase
- 60.3% expect investment in automation and the deployment of artificial intelligence (AI) technology to rise
- 54.2% expect spending to increase on sustainability and environmental initiatives
- 53.5% expect investment in innovation to increase
- 48.5% expect to see an upturn in customer experience and service spending, with less than a quarter (22.9%) expecting investment in this area to fall
- At the other end of the scale, 75.5% of survey respondents expect investment in aircraft orders to decrease over the next two years, while 55.3% expect to see
- a decrease in terminal design and construction spend
- Recovery will take two to three years

### *The Aviation Industry in Q3 2020*

The International Air Transport Association's (IATA) industry results, measured in Revenue Passenger Kilometres (RPK) and Cargo Tonne Kilometres (CTKs) are the passenger and freight contributions to airline revenue and are significant markers to determine the health of the industry. IATA's full third quarter results were not yet released at the publication of this report, so the results shared are for the first two months of the quarter.

Industry-wide revenue passenger-kilometres (RPKs) contracted by 75.3% year-on-year in August, compared with a 79.5% decline in July <sup>(1)</sup>. All regions posted modest improvements, with varying degrees of recovery seen in each region. Industry-wide cargo tonne-kilometres (CTKs) fell by 12.6% year-on-year in August and dropped 13.5% year-on-year in July 2020, the slowest decline since February, when COVID-19 was still mostly impacting Asia. <sup>(2)</sup> This divergence between economic activity and air cargo is partly due to the shortage of air cargo capacity.

Results from large commercial aircraft manufacturers show Boeing and Airbus delivered 11 and 57 commercial jets in September 2020, compared to 26 and 71 deliveries, respectively, in the same month last year. With just 98 deliveries this year to date, Boeing is 204 shipments behind last year's total for the first three quarters of the year. Airbus delivered a total of 341 jets from January to September, compared to 571 during the same period last year <sup>(3)</sup>.

Embraer delivered a total of 28 jets in the third quarter of 2020, of which seven were commercial aircraft and 21 were executive jets (19 light and 2 large). This was down from Q3 2019 when they delivered a total of 44 jets of which 17 were commercial aircraft and 27 were executive jets (15 light and 12 large) <sup>(4)</sup>. Bombardier has not posted Q3 results at this time <sup>(5)</sup>.

### *Flyht's Market*

Flyht's core technology, which uses satellite networks to provide real-time communication with aircraft, is marketed to a number of sectors within the global aerospace industry. The Company's AFIRS, FlightLink and TAMDAR systems can be installed on commercial, business or military aircraft, although the latter category represents a smaller portion of current business. In addition, Flyht's UpTime Cloud and AirMap and other solutions are sold to the same market segments.

Flyht's has now launched our most advanced SaaS software to date. "Actionable Intelligence" is a combination of sophisticated tools allowing us to deliver an incredibly valuable entrance into the world of artificial intelligence through the deployment of our Actionable Intelligence platform. Flyht's Actionable Intelligence provides insight into our partners' total operations to find areas for improvement. That insight triggers actions based upon rules or previous observations to direct corrective action in near real time. These steps allow the airline to control profitability of their operations, improving customer satisfaction with better on time performance and allows for empowered employees who solve problems on the spot. Airlines need to align the passenger experience, airline operations and positive working environment for enhanced profit opportunity with a seamless technology partnership.

Flyht remains an industry leader in real-time data streaming technology that enhances the efficiency and safety of aircraft. Over the last year, the Company focused on the development and launch of a cloud-based, UpTime solution. UpTime Cloud is an enhanced version of our previous platform. It is scalable enabling us to easily ramp-up and increase customers. As well it is customer-configurable—offering our customers greater flexibility and control to tailor the solution to meet their specific needs.

Flyht will continue to add functions and features to enhance and improve UpTime Cloud capabilities to include additional tracking, data collection, transmission, and analysis to optimize airline operational and maintenance activities. Aircraft health monitoring functions will be able to detect and notify airlines of problems in real-time—while the aircraft is in flight—enabling operators to trigger preparations for repairs, parts sourcing, crew changes, or re-routing before the aircraft lands. By providing operators with real-time business intelligence, airlines will be able to optimize their fleet operations thereby reducing operational costs and increasing profit margins.

Flyht also engaged in a strategic partnership with ATP CaseBank to produce an enhanced aircraft health and monitoring SaaS application for the MRO (commercial aircraft maintenance, repair and overhaul) market. This partnership supports Flyht’s efforts in both Hardware and SaaS product development and growth. This effort is still in early stages.

Flyht continues progress in the weather business after the acquisition of the assets of Panasonic Weather Solutions (PWS) in 2018. The PWS product set includes FlightLink (an Iridium Satellite Data Unit) and the Tropospheric Airborne Meteorological Data Reporting system (TAMDAR™). TAMDAR is a unique sensor device installed on aircraft that captures temperature, pressure, winds aloft, icing, turbulence and relative humidity. TAMDAR bundles the data it collects with Global Positioning System (GPS) data and transmits the information in real-time over satellite networks. TAMDAR technology is protected by several U.S. and worldwide patents.

Like the data traditionally gathered by weather balloons worldwide, this information collected by TAMDAR is used to update weather models. Unlike weather balloons, TAMDAR collects the real-time data continuously and in real-time by transmitting “soundings” or batches of data to airline ground operations or weather offices.

The relative humidity data, gathered throughout an aircraft’s flight, makes these weather soundings particularly valuable to meteorologists. This kind of predictive weather intelligence can also help airlines change flight plans to avert weather systems that may impact fuel consumption and flight comfort as well as help re-route for airport closures or plan for ground support and gate shutdowns due to severe weather.

Flyht also acquired the FlyhtMap solution from PWS which is a situational tracking solution that provides real-time visualizations of fleet status. FlyhtMap was purpose built for AirAsia to serve as their primary flight display at their aircraft operations center in Kuala Lumpur.

Flyht has participated in industry events and working groups to demonstrate our AFIRS solution’s 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 our 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 aircraft during production so that UpTime Cloud services can be turned on immediately after delivery to the customer.

The Canadian dollar gained strength relative to the U.S. dollar throughout Q3 2020<sup>(8)</sup> and the Company experienced a resulting negative impact to net income compared to Q3 2019. As a result of these currency movements, the Company’s revenues, which are substantially all denominated in U.S. dollars, were lower than they would have been had the foreign exchange rates not changed. It is the standard of the aviation industry to conduct business in U.S. dollars. While the majority of the Company’s operating and overhead costs are denominated in Canadian dollars, a significant portion of the cost of sales, marketing and distribution costs are U.S. dollar denominated, and therefore a partial natural hedge exists against fluctuations of the Canadian dollar.

## **Q3 2020 Contracts, Achievements and Activities**

### **Contracts**

Flyht received USD\$2.1 million in new sales contracts and purchase orders in Q3 2020. These contract figures assume that the Company provides services over the full term of these contracts. Flyht has not identified any impediments to the fulfillment of these contracts as a result of any subsequent events after these disclosures.

- Flyht received an order from China Express to factory install AFIRS on 20 ARJ 21 aircraft, and announced China Express as a launch partner for its Actionable Intelligence solution
- A purchase order was received for certification engineering support, for delivery in Q4 2020

## Achievements & Activities

- Flyht amended the warrants issued in July 2018 to both extend the expiry date to December 24, 2020 and to amend the exercise price to \$0.60
- Flyht retained FNK IR LLC for investor relations and capital markets communications services
- The Company developed and began delivering phase one of the Actionable Intelligence suite of SaaS applications, in combination with IBM Watson Knowledge Catalog and IBM Cloud Pak for Data

## Results of Operations

### Selected Results

	Q3 2020 \$	Q2 2020 \$	Q1 2020 \$	Q4 2019 \$
Assets	15,698,866	17,266,441	18,513,259	14,736,226
Non-current financial liabilities	7,001,557	7,376,115	7,073,883	4,618,014
Revenue	1,918,410	3,060,157	5,295,232	4,281,612
Cost of sales	590,375	993,846	1,325,602	1,595,421
Gross margin	1,328,035	2,066,311	3,969,630	2,686,191
Gross margin %	69.2%	67.5%	75.0%	62.7%
Distribution expenses	589,830	1,163,957	2,108,641	1,992,477
Administration expenses	1,030,074	686,489	1,099,130	1,199,149
Research, development and certification engineering expenses	1,012,543	440,818	928,325	1,100,961
Results from operating activities	(1,304,412)	(224,953)	(166,466)	(1,606,396)
Depreciation	224,539	199,673	267,404	253,614
Other income	-	178,412	628,500	641,296
EBITDA*	(1,079,873)	153,132	729,438	(711,486)
Income (loss)	(1,647,249)	(276,515)	686,022	(1,212,971)
Income (loss) per share (basic)	(0.06)	(0.01)	0.03	(0.06)
Income (loss) per share (diluted)	(0.06)	(0.01)	0.03	(0.06)
	Q3 2019 \$	Q2 2019 \$	Q1 2019 \$	Q4 2018 \$
Assets	11,529,110	10,988,820	12,177,007	9,097,270
Non-current financial liabilities	4,685,813	4,862,450	5,532,865	4,420,714
Revenue	5,197,446	6,350,349	5,341,752	4,033,826
Cost of sales	2,674,856	2,141,376	2,432,704	1,775,657
Gross margin	2,522,590	4,208,973	2,909,048	2,258,169
Gross margin %	48.5%	66.3%	54.5%	56.0%
Distribution expenses	1,941,927	2,294,519	2,066,846	2,075,217
Administration expenses	941,060	1,118,420	955,290	1,258,097
Research, development and certification engineering expenses	939,935	1,020,747	707,871	789,203
Results from operating activities	(1,300,332)	(224,713)	(820,959)	(1,864,348)
Depreciation	215,881	191,591	180,332	57,143
Other income	623,544	1,544,756	1,316,977	1,861,050
EBITDA*	(460,907)	1,511,634	676,350	53,845
Income (loss)	(777,648)	1,037,326	206,658	217,954
Income (loss) per share (basic)	(0.04)	0.05	0.01	0.01
Income (loss) per share (diluted)	(0.04)	0.05	0.01	0.01

\*See Non-GAAP Financial Measures

## Financial Position

### *Liquidity and Capital Resource*

The Company's cash and cash equivalents at September 30, 2020 decreased to \$4,107,483 from \$4,127,648 at December 31, 2019. The Company has an operating demand loan available through a Canadian chartered bank for up to a maximum of \$1.5 million CAD or 90% of the Company's receivable balance, drawn either in CAD or USD. The operating demand loan bears interest at the Canadian chartered bank prime plus 1.5% (CAD) or US prime plus 4.5% (USD). 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 as at September 30, 2020.

The Company funded Q3 2020 operations primarily through the proceeds from cash received from sales, the November 2019 private placement, funding obtained from the Canadian Emergency Wage Subsidy and United States Paycheck Protection Program governmental programs, and contributions from the Western Innovation Initiative (WINN). The Company will strive to self-fund operations through the remainder of 2020.

	September 30, 2020	December 31, 2019	Variance
	\$	\$	\$
Cash and cash equivalents	4,107,483	4,127,648	(20,165)
Trade and other receivables	3,371,807	4,980,405	(1,608,598)
Contract assets	511,775	256,125	255,650
Deposits and prepaid expenses	920,182	797,759	122,423
Inventory	1,685,099	1,672,068	13,031
Trade payables and accrued liabilities	(2,369,640)	(2,346,560)	(23,080)
Customer deposits	(421,865)	(160,706)	(261,159)
Contract liabilities	-	(658,655)	658,655
Loans and borrowings	(750,706)	(718,015)	(32,691)
Lease liability	(562,176)	(625,590)	63,414
<b>Working capital*</b>	<b>6,491,959</b>	<b>7,324,479</b>	<b>(832,520)</b>

\*See Non-GAAP Financial Measures

As at November 5, 2020 Flyht's issued and outstanding share capital was 26,663,861.

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 hardware 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. Although the Company's results showed losses from operating activities in the periods ending Q3 2020 and Q3 2019, cash flow from operations was positive in those periods. At September 30, 2020, the Company had positive working capital of \$6.5 million compared to positive \$7.3 million as of December 31, 2019, a decrease of \$0.8 million. The Company ended Q3 2020 with balances of \$4.1 million in cash and cash equivalents, an undrawn credit facility of \$1.5 million, and \$2.1 million in contributions under WINN loans not yet received.

For the Company to continue as a going concern longer-term, it will need to achieve profitability and positive operating cash flows. The Company will continue to expand its earnings and cash flow potential through its focused marketing efforts, particularly the presentation of Actionable Intelligence tools to our customer and prospects, which are expected to result in additional contracts for delivery of hardware units and related services. The intention is to provide profit enhancement opportunities to our customers and prospects without requisite capital expenditures by them and thereby get back to our core benefit to our shareholders of high value SaaS revenue growth.

Until achieving positive earnings and cash flows, it is the Company's intention to continue to fund operations through revenue and its resulting cash flow as well as continue to manage outgoing cash flows. The Company may have to scale back operations to create positive cash from existing revenue and/or raise the necessary financing in the capital markets through debt and/or equity.

General economic conditions in the industry and the financial condition of major customers may significantly impact the Company's ability to achieve positive earnings and cash flows. The negative impact to the commercial air industry resulting from the COVID-19 pandemic is unprecedented. In 2020 Flyht has been seeing near term implications of the pandemic in all aspects of revenue and trade receivable payments due to the impact of the pandemic on our customers. In Q3 2020 Flyht has begun to see some recovery in our customers, with aircraft re-commencing operations as well as receivable payments being made. There is continued risk until such a time as the industry recovers. There exists a possibility that an extended industry recovery could cause Flyht to dramatically diminish the scale of its operations and, in the limit, become illiquid.

There is no assurance that the Company will be successful in attaining and sustaining profitable operations and positive cash flow and/or raising additional capital to meet its 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 material uncertainties may cast doubt upon the Company's ability to continue as a going concern. The condensed consolidated interim financial statements do not reflect adjustments that would otherwise be necessary if the going concern assumption was not valid, such as revaluation to liquidation values and reclassification of statement of financial position items.

## 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. This facility was undrawn as at September 30, 2020.

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

## Contractual Obligations

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

September 30, 2020	< 2 months \$	2-12 months \$	1-2 years \$	2-5 years \$	> 5 years \$	Total \$
Accounts payable	1,647,806	4,902	-	-	-	1,652,708
Compensation and statutory deductions	145,051	302,600	108,044	-	-	555,695
Accrued liabilities	22,807	138,429	-	-	-	161,236
Lease payments	159,387	402,789	470,073	813,614	1,720,065	3,565,928
Loans and borrowings	78,000	2,496,737	1,130,344	2,169,477	1,267,618	7,142,176
<b>Total</b>	<b>2,053,051</b>	<b>3,345,457</b>	<b>1,708,461</b>	<b>2,983,091</b>	<b>2,987,683</b>	<b>13,077,743</b>

Under the Strategic Aerospace and Defence Initiative (SADI), the Company has, at September 30, 2020, an outstanding repayable balance of \$1,389,018. 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 January 31, 2029 (adjusted from April 30, 2028 in response to the COVID-19 pandemic) when the final payment will be 24.5% of the total contribution received. There was no repayment made in the third quarter of 2020 nor the third quarter of 2019.

In November 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 Company's 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 was received. The amount is repayable over five years commencing January 1, 2020. Amendments in 2020 have adjusted the payment dates due to COVID-19, so that there are no payments scheduled from April – September, 2020 and the final payment date has been pushed back to June 2025. Repayments in Q1 2020 totaled \$117,000.

In November 2018, the Company signed a second contribution agreement with Western Economic Diversification Canada for a WINN loan, to support development of the next generation of AFIRS hardware and embedded software to address parts obsolescence issues and add new market-driven features. Under the terms of the agreement, a repayable unsecured WINN contribution to the value of the lesser of 44% of the eligible project costs to April 30, 2021 or \$2,761,000 will be received. A March 31, 2019 amendment adjusted the end date for eligible project costs to September 30, 2021. The amount is repayable over five years commencing October 1, 2021. At September 30, 2020, the Company had received contributions totaling \$638,529 (December 31, 2019: \$163,782).

A summary of the carrying value of the SADI and WINN loans as at September 30, 2020 and 2019 and changes during these three and nine months is presented below.

	2020			2019		
	SADI	WINN	Total	SADI	WINN	Total
Balance January 1	1,340,262	2,003,235	3,343,497	1,252,743	1,569,663	2,822,406
Received	-	474,747	474,747	-	311,196	311,196
Grant portion	-	(88,955)	(88,955)	-	(103,786)	(103,786)
Interest accretion	177,524	156,745	334,269	166,541	124,664	291,205
Gain on payment deferral	(128,768)	(94,632)	(223,400)	-	-	-
Repayment	-	(117,000)	(117,000)	(137,234)	-	(137,234)
<b>Balance September 30</b>	<b>1,389,018</b>	<b>2,334,140</b>	<b>3,723,158</b>	<b>1,282,050</b>	<b>1,901,737</b>	<b>3,183,787</b>
Less current portion	151,750	401,285	553,035	142,824	313,768	456,592
Non-current portion	1,237,268	1,932,855	3,170,123	1,139,226	1,587,969	2,727,195

	2020			2019		
	SADI	WINN	Total	SADI	WINN	Total
Balance June 30	1,458,664	2,318,394	3,777,058	1,226,374	1,784,211	3,010,585
Received	-	70,625	70,625	-	85,948	85,948
Grant portion	-	(14,460)	(14,460)	-	(13,273)	(13,273)
Interest accretion	59,122	54,213	113,335	55,676	44,851	100,527
Gain on payment deferral	(128,768)	(94,632)	(223,400)	-	-	-
Repayment	-	-	-	-	-	-
<b>Balance September 30</b>	<b>1,389,018</b>	<b>2,334,140</b>	<b>3,723,158</b>	<b>1,282,050</b>	<b>1,901,737</b>	<b>3,183,787</b>
Less current portion	151,750	401,285	553,035	142,824	313,768	456,592
Non-current portion	1,237,268	1,932,855	3,170,123	1,139,226	1,587,969	2,727,195

### Convertible Debenture

The Debentures were issued on July 24, 2018, will mature on July 24, 2021 (if not converted prior to expiry) and bear interest at a rate of 8% per annum, which is accrued and paid annually in arrears. At the time of issue, the Debentures were convertible at the option of the debenture holder into common shares of Flyht (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.

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). The original agreement allowed for each whole Warrant to be exercised to acquire one Common Share of Flyht for a period of two (2) years from the date of issuance at an exercise price of \$1.45 per share. The Warrants were 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 was equal to or exceeded \$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 would accelerate to the date which was 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.

In July 2020 the Company amended the exercise price of the Warrants to \$0.60 and extended the term of the Warrants to December 24, 2020, subject to 30-day acceleration if, for any ten consecutive trading days during the unexpired term of such Warrants, the closing price of the Company's Shares is greater than \$0.72.

The Debentures are secured against all personal property of the Company and are subordinated in right of payment to all existing and future secured bank and/or governmental indebtedness of the Company and any existing security already registered against Flyht's assets.

A summary of the carrying value of the debenture as at September 30, 2020 and changes during the three and nine months is presented below.

	For the three months ended September 30			For the nine months ended September 30		
	2020 \$	2019 \$	Variance \$	2020 \$	2019 \$	Variance \$
Opening Balance	1,662,056	1,623,571	38,485	1,535,438	1,727,773	(192,335)
Debenture conversion	-	(59,084)	59,084	-	(277,912)	277,912
Interest paid on conversions	-	(8,473)	8,473	-	(37,253)	37,253
Amortization of issue costs	6,103	6,103	-	18,177	18,111	66
Accrued interest	57,478	46,232	11,246	172,022	177,630	(5,608)
Interest paid	(133,949)	(133,949)	-	(133,949)	(133,949)	-
<b>Carrying amount at September 30</b>	<b>1,591,688</b>	<b>1,474,400</b>	<b>117,288</b>	<b>1,591,688</b>	<b>1,474,400</b>	<b>117,288</b>
Less current portion	138,091	118,016	20,075	138,091	118,016	20,075
Non-current portion	1,453,597	1,356,384	97,213	1,453,597	1,356,384	97,213

### *Contract Liabilities - Customer Deposits*

Customers are frequently required to pay for 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 nine months ending September 30, 2020 and 2019. Partial payments were received for 3 installation kits in the third quarter of 2020. For the nine months ended September 30, 2020, payment has been received for 19 installation kits compared to 79 in 2019.

	Q3 2020 \$	Q3 2019 \$	Variance \$	YTD 2020 \$	YTD 2019 \$	Variance \$
Opening balance	743,841	381,200	362,641	160,706	661,833	(501,127)
Payments received	309,778	343,654	(33,876)	2,108,492	3,363,363	(1,254,871)
Recognized as revenue	(631,754)	(509,243)	(122,511)	(1,847,333)	(3,809,585)	1,962,252
<b>Balance, September 30</b>	<b>421,865</b>	<b>215,611</b>	<b>206,254</b>	<b>421,865</b>	<b>215,611</b>	<b>206,254</b>

## Comprehensive Income

### Revenue

Software as a Service (**SaaS**) is the recurring revenue from the Company's products that allow customers to utilize and analyze data they receive from hardware, use of functions such as the satellite phone and the sale of weather data from TAMDAR units. These usage fees are recognized as the service is provided based on actual customer usage each month. **Hardware** includes the income from hardware sales and related parts required to install the unit, spare 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.

### Revenue sources

	Q3 2020	Q3 2019	Variance	YTD 2020	YTD 2019	Variance
	\$	\$	\$	\$	\$	\$
SaaS	1,652,001	2,649,345	(997,344)	5,695,706	7,535,457	(1,839,751)
Hardware	137,137	1,864,523	(1,727,386)	815,661	5,994,095	(5,178,434)
Licensing	86,033	589,546	(503,513)	3,582,805	2,468,820	1,113,985
Technical Services	43,239	94,032	(50,793)	179,627	891,175	(711,548)
<b>Total</b>	<b>1,918,410</b>	<b>5,197,446</b>	<b>(3,279,036)</b>	<b>10,273,799</b>	<b>16,889,547</b>	<b>(6,615,748)</b>

For the three and nine months ended September 30, 2020, total revenue decreased 63.1% from \$5,197,446 in Q3 2019 to \$1,918,410 in Q3 2020. An indicator of the financial impact of COVID-19 is the revenue decrease that occurred in all four categories as compared to the same quarter last year: SaaS revenue decreased by 37.6%, Hardware revenue decreased by 92.6%, Licensing revenue decreased by 85.4%, and Technical Services revenue decreased by 54.0%.

**SaaS** revenue decreased in Q3 2020 as compared to Q3 2019. When comparing Q3 2020 to Q3 2019, the decrease in this category resulted from a large number of customer aircraft continuing to be grounded during the global pandemic.

**Hardware** revenue decreased in Q3 2020 as compared to Q3 2019 due to fewer installation kits being shipped during the global pandemic. Revenue was recognized for 1 installation kit in Q3 2020, compared to 41 in Q3 2019.

**Licensing** revenue decreased in Q3 2020 due to differences in the number of modems and associated license fees ordered for delivery in the quarter.

**Technical Services** revenue decreased in Q3 2020 as compared to Q3 2019. This revenue category can be expected to vary significantly between periods and years, depending on the level of additional technical services provided to customers in each relevant period.

Revenue sources for the last eight quarters were:

	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018
SaaS	1,652,001	1,305,049	2,738,654	2,711,228	2,649,345	2,480,880	2,405,232	2,261,211
Hardware	137,137	450,841	227,684	657,577	1,864,523	1,754,672	2,374,901	1,464,475
Licensing	86,033	1,233,096	2,263,677	772,466	589,546	1,501,513	377,760	249,833
Technical Services	43,239	71,171	65,217	140,341	94,032	613,284	183,859	58,307
<b>Total</b>	<b>1,918,410</b>	<b>3,060,157</b>	<b>5,295,232</b>	<b>4,281,612</b>	<b>5,197,446</b>	<b>6,350,349</b>	<b>5,341,752</b>	<b>4,033,826</b>

	Q3 2020		Q3 2019		YTD 2020		YTD 2019	
	\$	%	\$	%	\$	%	\$	%
United States & Mexico	599,160	31.2	1,561,684	30.0	5,464,018	53.2	5,970,129	35.3
Asia	265,416	13.8	2,060,259	39.6	1,047,207	10.2	3,357,496	19.9
China	278,081	14.5	559,207	10.8	1,215,430	11.8	2,888,171	17.1
Middle East	177,935	9.3	279,320	5.4	672,146	6.5	1,820,892	10.8
Canada	276,202	14.4	226,427	4.4	841,114	8.2	1,242,488	7.4
Australia	80,264	4.2	175,998	3.4	337,917	3.3	489,088	2.9
Africa	148,952	7.8	143,588	2.8	407,773	4.0	453,095	2.7
Europe	81,446	4.2	111,106	2.1	164,473	1.6	427,269	2.5
South/Central America	10,954	0.6	79,857	1.5	123,721	1.2	240,919	1.4
<b>Total</b>	<b>1,918,410</b>	<b>100.0</b>	<b>5,197,446</b>	<b>100.0</b>	<b>10,273,799</b>	<b>100.0</b>	<b>16,889,547</b>	<b>100.0</b>

### Gross Profit and Cost of Sales

Flyht's cost of sales includes the direct costs associated with specific revenue types, including the hardware 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 Q3 2020 was 30.8% compared to 51.5% in Q3 2019. The increase in gross margin was due to differences in the mix of revenue sources in 2020 versus 2019. Gross margin will fluctuate quarter over quarter depending on customer needs and revenue mix.

Gross margin for the last eight quarters was:

	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018
Gross Margin %	69.2	67.5	75.0	62.7	48.5	66.3	54.5	56.0
Cost of Sales	30.8	32.5	25.0	37.3	51.5	33.7	45.5	44.0

### Distribution Expenses (Recovery)

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

Major Category	Q3 2020	Q3 2019	Variance	YTD 2020	YTD 2019	Variance
	\$	\$	\$	\$	\$	\$
Salaries and benefits	946,037	1,537,903	(591,866)	3,587,602	4,688,415	(1,100,813)
Share based compensation	9,654	10,201	(547)	20,881	29,521	(8,640)
Contract labour	129,399	103,922	25,477	458,360	462,435	(4,075)
Office	78,656	28,628	50,028	165,524	174,572	(9,048)
Travel	12,441	115,560	(103,119)	126,365	441,847	(315,482)
Equipment and maintenance	15,503	10,101	5,402	35,905	47,031	(11,126)
Depreciation	146,360	153,014	(6,654)	446,392	405,783	40,609
Marketing	44,226	(8,669)	52,895	48,403	62,741	(14,338)
Government grants	(494,880)	-	(494,880)	(1,100,483)	-	(1,100,483)
Bad debt reserve	(297,566)	(8,733)	(288,833)	73,479	(9,646)	83,125
<b>Total</b>	<b>589,830</b>	<b>1,941,927</b>	<b>(1,352,097)</b>	<b>3,862,428</b>	<b>6,302,699</b>	<b>(2,440,271)</b>

Distribution expenses decreased 69.6% from Q3 2019 to Q3 2020, due mainly to differences in people costs, in part due to receipt of government payroll funding.

**Salaries and Benefits** have decreased as the re-filling of some open positions have been deferred until after businesses start to resume normal operations. Some distribution personnel have also been re-focused on executing on research and development activities, particularly the development of Flyht's Actionable Intelligence solution.

**Travel and Marketing** expenses have decreased quarter over quarter as out of country travel has ceased and various conferences and other events have been cancelled during the COVID-19 pandemic.

**Government Grants** were received from both the Canadian government (CEWS) as well as the United States government (PPP) to assist businesses in covering payroll and maintaining personnel during the COVID-19 pandemic.

**Bad Debt Reserve** has increased YTD 2020 over YTD 2019, due to the financial impact our customers have encountered during the COVID-19 pandemic.

### *Administration Expenses (Recovery)*

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

Major Category	Q3 2020 \$	Q3 2019 \$	Variance \$	YTD 2020 \$	YTD 2019 \$	Variance \$
Salaries and benefits	530,353	405,916	124,437	1,495,466	1,419,432	76,034
Share based compensation	126,532	35,890	90,642	151,281	79,187	72,094
Contract labour	145,684	84,000	61,684	312,135	306,327	5,808
Office	140,320	117,759	22,561	396,170	342,995	53,175
Legal fees	27,650	18,933	8,717	72,416	35,780	36,636
Audit and accounting	38,674	117,700	(79,026)	150,725	230,962	(80,237)
Investor relations	20,530	47,679	(27,149)	118,136	152,758	(34,622)
Travel	4,217	42,335	(38,118)	66,430	151,853	(85,423)
Equipment and maintenance	95,300	37,687	57,613	202,405	157,683	44,722
Depreciation	42,822	29,239	13,583	133,621	85,190	48,431
Government grants	(143,258)	-	(143,258)	(300,826)	-	(300,826)
Other	1,250	3,922	(2,672)	8,442	51,154	(42,712)
<b>Total</b>	<b>1,030,074</b>	<b>941,060</b>	<b>89,014</b>	<b>2,806,401</b>	<b>3,013,321</b>	<b>(206,920)</b>

Administration expenses increased by 9.5% from Q3 2019 to Q3 2020.

**Salaries and Benefits** have increased with fewer Administrative resources being allocated to research and development activities.

**Travel** expenses have decreased as international travel has been halted and all conventions and conferences have been cancelled.

**Investor relations** expenses have decreased quarter over quarter, due to cost containment strategies employed during the COVID-19 pandemic.

**Government Grants** were received from both the Canadian government (CEWS) as well as the United States government (PPP) to assist businesses in covering payroll and maintaining personnel during the global pandemic.

## Research, Development and Certification Engineering Expenses (Recovery)

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

Major Category	Q3 2020 \$	Q3 2019 \$	Variance \$	YTD 2020 \$	YTD 2019 \$	Variance \$
Salaries and benefits	936,007	774,153	161,854	2,454,698	2,272,132	182,566
Share based compensation	3,961	3,707	254	8,061	10,182	(2,121)
Contract labour	191,155	85,023	106,132	369,865	140,668	229,197
Office	29,438	9,988	19,450	56,075	102,179	(46,104)
Travel	82	34,115	(34,033)	12,853	92,411	(79,558)
Equipment and maintenance	10,718	1,910	8,808	13,762	10,412	3,350
Components	5,438	10,400	(4,962)	16,376	47,126	(30,750)
Depreciation	35,357	33,590	1,767	111,602	96,793	14,809
Government grants	(199,613)	(13,241)	(186,372)	(650,272)	(103,786)	(546,486)
Other	-	290	(290)	106	102	4
<b>Total</b>	<b>1,012,543</b>	<b>939,935</b>	<b>72,608</b>	<b>2,393,126</b>	<b>2,668,219</b>	<b>(275,093)</b>

Research and Development expenses were 7.7% higher in Q3 2020 compared to Q3 2019. The main contributors to the increase were increased people costs, both internal labour as well as external contracted labour. Countering this increase was the government funding received. Research and development costs vary according to specific project requirements.

**Salaries and benefits** expense increased in Q3 2020 as a result of an increase in employee time allocated toward projects that meet the definition of development activities.

**Contract Labour** expense increased in Q3 2020 as a result of additional labour engaged to assist in new development activities, particularly Flyht's Actionable Intelligence solution.

**Government Grants** were received from both the Canadian government (CEWS) as well as the United States government (PPP) to assist businesses in covering payroll and maintaining personnel during the global pandemic.

## Net Finance Costs

Major Category	Q3 2020 \$	Q3 2019 \$	Variance \$	YTD 2020 \$	YTD 2019 \$	Variance \$
Interest (income)	(10,228)	(3,845)	(6,383)	(49,294)	(16,519)	(32,775)
Net foreign exchange loss (gain)	141,622	(79,386)	221,008	25,892	106,986	(81,094)
Other unrealized gains	(9,805)	-	(9,805)	(275,057)	-	(275,057)
Bank service charges	7,909	7,716	192	22,989	22,155	834
Interest expense	36,045	23,289	12,756	99,628	63,959	35,669
Government loan accretion	113,334	100,485	12,849	334,269	291,205	43,064
Debenture interest and accretion	63,580	52,336	11,244	190,198	205,473	(15,275)
<b>Net finance costs</b>	<b>342,456</b>	<b>100,595</b>	<b>241,861</b>	<b>348,626</b>	<b>673,259</b>	<b>(324,633)</b>

The financial impact of **Net foreign exchange gains and losses** will vary between periods as the value of the Canadian dollar fluctuates in relation to the U.S. dollar. A strengthening of the Canadian dollar has given rise to foreign exchange losses in Q3 2020 versus gains in Q3 2019 on U.S. dollar denominated sales and purchases, in combination with fluctuations in U.S. denominated assets and liabilities.

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

**Debenture interest and accretion** is the recognition of the effective interest on the liability portion of the debenture and the amortization of the issuance cost.

## Net Income (Loss)

Major Category	Q3 2020 \$	Q3 2019 \$	Variance \$	YTD 2020 \$	YTD 2019 \$	Variance \$
Net income (loss)	(1,647,249)	(777,648)	(869,601)	(1,240,071)	468,246	(1,708,317)

## Other income

All subsidies and reconciling items from the October 2018 asset acquisition of Panasonic Weather Solutions were recognized by the end of Q2 2020. No other income was recognized in Q3 2020.

## Other

## 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.

### Impact of COVID-19 to Commercial Air Industry

The negative impact to the commercial air industry by the COVID-19 pandemic is unprecedented. The Company has seen impact to revenues and continues to expect near and intermediate term risk in all aspects of revenue and timing of trade receivable payments due to the impact of the pandemic on our customers. This risk will also imperil Flyht's cashflows until such a time as the industry recovers. There exists a possibility that an extended industry recovery could cause Flyht to dramatically diminish the scale of its operations and, in the limit, become illiquid.

### Installations at c-checks

The Company's products, AFIRS 228, FlightLink and TAMDAR, can take approximately 150-200 person-hours to install on an aircraft, depending on the product, aircraft type and installation crew. Since the installation period is non-trivial, 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, though most aircraft are available annually. The timing of a c-check for hardware 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 hardware components are installed and running.

The Company takes steps to mitigate this uncertainty by encouraging customers to install hardware 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.

### Enterprise Network Risks

The Company currently operates several different types of networks to provide its SaaS products to our customer base. Uptime Classic services many of Flyht's early adopters and is implemented on redundant fixed server platforms in Canada. Uptime Cloud services many of Flyht's newer AFIRS customers and is implemented in Amazon Web Services (AWS) equipment in the United States and China. The AirMap system formerly hosted in the United States has been fully migrated to AWS in 2020. This will minimize the risk of possible system disruption that would negatively impact Flyht's customers.

All the enterprise services exist with the possibility that their security could be compromised. Flyht uses best practices to ensure that the services are as secure as practical and periodically test the penetrability of the systems according to best practices within the enterprise community. A security breach could expose our customer data to external, unauthorized third parties and create a breach in our contracts with our customers. To date, no such breach has knowingly occurred on any of these systems. Flyht will continue to monitor and improve our solutions. In particular, the hosting of our solutions on AWS brings with it the benefits of taking advantage of state-of-the-art security provisions which are introduced on that platform with great velocity.

### **Foreign currency fluctuations**

The Company recognizes 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 the Company offers.

To address this risk, the sales team has developed several 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, we may find success 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 enables the Company to complete STCs in a timely and cost-efficient manner. Similarly, the Company must interact with the FAA for its USA based STCs and PMA certifications. The Company has worked over the past few years to distribute the specified knowledge among several 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, FlightLink and TAMDAR product lines and continues to build out its 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 within the AirMap suite of applications of and UpTime Cloud. Flyht is confident these products fill a gap in the industry, as evidenced by sales of the AFIRS 228 products to date. With the changes to the industry brought on by the COVID 19 situation, the return to value added SaaS products is critical. Early indications that our Actionable Intelligence strategy is highly desirable by industry players of all sizes to assist in the recovery of the industry have been encouraging. The Company's success will ultimately depend on the success of its products, and future enhancements made to them.

### **Revenues associated with TAMDAR**

TAMDAR is currently installed on approximately 70 aircraft for the purposes of collecting weather data. Flyht supplies this weather data to Synoptic Data DBC as part of their participation in the National Mesonet program. Flyht is receiving revenues from Synoptic based upon this participation with a targeted number of observations. If these observations fall below an established number or if they are not perceived to have the original perceived value, then the existing payments for the TAMDAR data could be diminished or stop, depending upon a variety of factors including procurement changes from the United States Government. Flyht's strategy to mitigate these potential problems and potentially grow the revenues derived from TAMDAR has been to expand the number of installed TAMDAR sensors and by investing in quality control programs to ensure that the sensors are properly calibrated and producing valid and valuable data. The number of flights around the world have decreased during the COVID-19 pandemic, decreasing the amount of weather data being collected from those aircraft with TAMDAR sensors installed, which has been reflected in the Company's revenues.

### **Availability of key supplies**

Flyht services its products differently, depending on the product.

- The AFIRS 220 is no longer in production and all units are repaired in-house at Flyht-Calgary. Certain parts can be delayed in shipping or availability, which can cause a delay in servicing the AFIRS 220. Flyht aims to avoid the risk of not having the necessary supplies by managing inventories and storing extra key parts. 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.
- The 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 receiving 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. The AFIRS 228 is serviced in different ways; by the contract manufacturer, at Flyht-Calgary or by our contract maintenance facility GAMECO in Guangzhou, China. Where a unit is repaired or serviced depends on a multitude of factors and is managed by Flyht's customer support team.
- FlightLink and TAMDAR are assembled at Flyht-Littleton using subassemblies that the Company procures from suppliers. These units are tested and certified at the Flyht-Littleton location before being shipped to customers. Flyht maintains close communication with its partners and suppliers to ensure all key components for TAMDAR and FlightLink are available for manufacturing. FlightLink and TAMDAR are currently serviced by Panasonic owned maintenance and repair facilities in Washington State, USA and Singapore. Flyht is working towards FAA approval for Part 145 repair facility at Flyht-Littleton.

### ***Proprietary protection***

Patent rights are 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. The Company has defended patent claims in court and been successful.

In general, there are many risks associated with the pursuit, the prosecution, the ultimate receipt of and the enforceability or defense of patents. The scope of patent protection available to us in the United States and in other countries is uncertain. Changes in either the patent laws or their interpretation in the United States and other countries may diminish our ability to protect our inventions, obtain, maintain and enforce our intellectual property rights and, more generally, could affect the value of our intellectual property or narrow the scope of our owned patents.

The patent prosecution process is expensive, time-consuming, and complex, and we may not be able to file, prosecute, maintain, enforce, or license all necessary or desirable patent applications at a reasonable cost or in a timely manner. It is also possible that we will fail to identify patentable aspects of our research and development output in time to obtain patent protection.

The patent position of advanced technology companies generally is highly uncertain, involves complex legal and factual questions, and has been the subject of much litigation in recent years. As a result, the issuance, scope, validity, enforceability, and commercial value of our patent rights are highly uncertain. Our pending and future patent applications may not result in patents being issued which protect our technology or product candidates or which effectively prevent others from commercializing competitive technologies and products.

The ultimate outcome of any pending or allowed patent application we file is uncertain, and the coverage claimed in a patent application can be significantly reduced before the patent is issued, and its scope can be reinterpreted after issuance. Any patents that we hold may be challenged, narrowed, circumvented, or invalidated by third parties. Consequently, we do not know whether any of our technology will be protectable or remain protected by valid and enforceable patents.

The issuance of a patent is not conclusive as to its inventorship, scope, validity or enforceability and our patents may be challenged in the courts or patent offices in the United States and in other jurisdictions. Competitors may claim that they invented the inventions claimed in such issued patents or patent applications prior to our inventors or may have filed patent applications before our inventors did. A competitor may also claim that our products and services infringe its patents and that we therefore cannot practice our technology as claimed under our patent applications, if issued. Competitors may also contest our patents, if issued, by showing that the invention was not patent-eligible, was not novel, was obvious or that the patent claims failed any other requirement for patentability.

### ***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 Chinese government has continued with a process of issuing waivers for the use of the Iridium frequency to aircraft needed for usage in China. This is the same process that they have used for many years, but they have now gone to issuing three-year grants to Iridium Communications Inc. versus the yearly grant that they had in the past. Given the prevalent use of Iridium services in China and the extensions of waivers reported by Iridium Communications Inc., the likelihood of a liability under these contracts is considered to be remote.

## COVID-19

While most industries have felt the effects of COVID-19 over the past several months, the pandemic has substantially impacted commercial aviation. From early January 2020 onward, daily departures from major airports have declined significantly. International travel has been severely curtailed, and airlines are taking extraordinary measures to preserve cash. Industry layoffs and furloughs have been accelerating, accounts payable have been pushed out, and capital equipment orders have been delayed or restructured.

Due to the equity raise in November 2019, which improved the Company's working capital, and the operational progress made throughout 2019, the Company entered 2020 with a relatively robust cash position. Despite the negative revenue impact of COVID-19 throughout Q2 and Q3, the Company was able to maintain cash levels throughout 2020. The Company anticipates continued negative revenue impact in the near-term due to customers rescheduling orders and decreases in air traffic, which will continue to impact the Company's corresponding hardware and SaaS revenues. This has been reflected in corresponding revenues, and in the negative trend in the bad debt reserve while airline recovery timing is still to be determined. The Company's bad debt reserve at September 30, 2020 has increased to \$650,282 from \$544,880 at December 31, 2019.

To preserve the Company's liquidity through this period of commercial aviation uncertainty, the following measures have been undertaken:

- Focused spending on immediate revenue opportunities
- Access government support
- Cost containment and cash conservation
- Working with existing partner airlines to assist in their recovery
- Focus on development of new long-term SaaS partnerships, including the launch of Actionable Intelligence

The Company will continue to monitor industry conditions and implement these and other measures, as the situation dictates.

As of September 30, 2020, the Company has recognized a total of \$1.8 million in government financial relief related to COVID-19 which has been applied against salaries in all three expense categories (Distribution, Administration and Research & Development). All grant funds received to date have been applied against applicable expenses. The Company has recorded a liability of \$59,580 to reflect the portion of CARES (PPP) that is deemed to be a loan and is estimated to be repayable. Repayment will occur once the forgivable amount is confirmed and paid to the lender through the US Government CARES Act.

### *Contingent Liability*

As announced on June 30, 2020, the Company has received a statement of claim from Thomas R. Schmutz (former Chief Executive Officer of Flyht) in the amount of \$525,000 CAD in relation to the termination of his employment with the Company. The matters raised in the lawsuit are considered by the Company to be unfounded and unproven allegations that will be vigorously defended. Although no assurances can be given with respect to the outcome of such proceedings, the Company believes it has valid defenses to this claim and accordingly has not recorded any related liability at this time.

## **Auditors' Involvement**

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

The auditors of FLYHT Aerospace Solutions Ltd. have not performed a review of the condensed consolidated interim financial statements for the three and nine months ended September 30, 2020 and 2019.

# CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION (UNAUDITED)

	September 30, 2020	December 31, 2019
	\$	\$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	4,107,483	4,127,648
Trade and other receivables	3,371,807	4,980,405
Contract assets	511,775	256,125
Deposits and prepaid expenses	920,182	797,759
Inventory	1,685,099	1,672,068
<b>Total current assets</b>	<b>10,596,346</b>	<b>11,834,005</b>
<b>Non-current assets</b>		
Property and equipment (note 6)	3,207,533	1,337,306
Intangible assets	34,992	34,992
Inventory	1,859,995	1,529,923
<b>Total non-current assets</b>	<b>5,102,520</b>	<b>2,902,221</b>
<b>Total assets</b>	<b>15,698,866</b>	<b>14,736,226</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Trade payables and accrued liabilities	2,369,640	2,346,560
Customer deposits	421,865	160,706
Contract liabilities	-	658,655
Loans and borrowings	750,706	718,015
Lease liability (note 6)	562,176	625,590
<b>Total current liabilities</b>	<b>4,104,387</b>	<b>4,509,526</b>
<b>Non-current liabilities</b>		
Loans and borrowings	4,623,720	4,160,920
Lease liability (note 6)	2,377,837	457,094
Provisions	22,586	30,202
<b>Total non-current liabilities</b>	<b>7,024,143</b>	<b>4,648,216</b>
<b>Total liabilities</b>	<b>11,128,530</b>	<b>9,157,742</b>
<b>Equity (deficit)</b>		
Share capital	63,523,245	63,508,080
Convertible debenture – equity feature	173,524	173,524
Warrants	1,322,513	1,247,311
Contributed surplus	10,751,082	10,647,771
Cumulative translation adjustment	6,069	(32,176)
Deficit	(71,206,097)	(69,966,026)
<b>Total equity (deficit)</b>	<b>4,570,336</b>	<b>5,578,484</b>
<b>Total liabilities and equity</b>	<b>15,698,866</b>	<b>14,736,226</b>

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

On behalf of the board



Director – Doug Marlin



Director – Paul Takalo

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

	For the three months ended September 30		For the nine months ended September 30	
	2020 \$	2019 \$	2020 \$	2019 \$
Revenue	1,918,410	5,197,446	10,273,799	16,889,547
Cost of sales	590,375	2,674,856	2,909,822	7,249,085
<b>Gross profit</b>	1,328,035	2,522,590	7,363,977	9,640,462
Distribution expenses	589,830	1,941,927	3,862,428	6,302,699
Administration expenses	1,030,074	941,060	2,806,401	3,013,321
Research, development and certification engineering expenses	1,012,543	939,935	2,393,126	2,668,219
<b>Income (loss) from operating activities</b>	(1,304,412)	(1,300,332)	(1,697,978)	(2,343,777)
Other Income	-	623,544	806,913	3,485,277
Finance income	(10,228)	(3,845)	(49,294)	(16,519)
Finance costs	352,685	104,440	397,920	689,778
<b>Net finance costs</b>	342,457	100,595	348,626	673,259
<b>Income (loss) before income tax</b>	(1,646,869)	(777,383)	(1,239,691)	468,241
Income tax expense (recovery)	(380)	(265)	(380)	5
<b>Income (loss) for the period</b>	(1,647,249)	(777,648)	(1,240,071)	468,246
Foreign currency translation adjustment	(18,546)	3,501	38,245	(43,905)
<b>Comprehensive income (loss) for the period</b>	(1,665,795)	(774,147)	(1,201,826)	424,341
<b>Income (loss) per share</b>				
Basic and diluted income (loss) per share	(0.06)	(0.04)	(0.05)	0.02

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

For the nine months ended September 30, 2020 and 2019

	Share Capital \$	Convertible Debenture \$	Warrants \$	Contributed Surplus \$	Cumulative Translation Adjustment	Deficit \$	Total Equity (Deficit) \$
<b>Balance at January 1, 2020</b>	63,508,080	173,524	1,247,311	10,647,771	(32,176)	(69,966,026)	5,578,484
Income for the period	-	-	-	-	38,245	(1,240,071)	(1,201,826)
<b>Total comprehensive income for the period</b>	-	-	-	-	38,245	(1,240,071)	(1,201,826)
<b>Contributions by and distributions to owners</b>							
Share-based payment transactions	-	-	-	180,223	-	-	180,223
Warrants exercised	15,165	-	(1,710)	-	-	-	13,455
Warrant modifications	-	-	76,912	(76,912)	-	-	-
Total contributions by and distributions to owners	15,165	-	75,202	103,311	-	-	193,678
<b>Balance at September 30, 2020</b>	63,523,245	173,524	1,322,513	10,751,082	6,069	(71,206,097)	4,570,336
<b>Balance at January 1, 2019</b>	58,430,455	207,273	50,712	10,494,208	35,638	(69,219,391)	(1,105)
Income for the period	-	-	-	-	(43,905)	468,246	424,341
<b>Total comprehensive income for the period</b>	-	-	-	-	(43,905)	468,246	424,341
<b>Contributions by and distributions to owners</b>							
Share-based payment transactions	-	-	-	118,891	-	-	118,891
Conversion of debt	325,490	(33,749)	-	-	-	-	291,741
Total contributions by and distributions to owners	325,490	(33,749)	-	118,891	-	-	410,632
<b>Balance at September 30, 2019</b>	58,755,945	173,524	50,712	10,613,099	(8,267)	(68,751,145)	833,868

# CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS (UNAUDITED)

For the nine months ended September 30

	2020 \$	2019 \$
<b>Cash flows used in operating activities</b>		
Income (loss) for the period	(1,240,071)	468,246
Depreciation – property and equipment	691,615	587,804
Convertible debenture accretion	190,199	195,742
Lease liability accretion	99,487	(391,403)
Grant portion of contributions from WINN	(88,955)	(103,786)
Government loan accretion	334,269	291,205
Gain on loan modification	(223,400)	-
Equity-settled share-based payment transactions	180,223	118,891
Change in inventories	(343,103)	(467,410)
Change in trade and other receivables	1,694,564	(526,877)
Change in contract assets	(255,650)	(920)
Change in prepayments	(122,423)	(227,771)
Change in trade and other payables	44,835	1,156,410
Change in customer deposits	261,159	(446,222)
Change in contract liabilities	(143,309)	-
Change in provisions	(7,616)	2,044
Unrealized foreign exchange loss (gain)	(25,770)	9,838
Other interest expense	-	73,688
Interest paid	-	(18,777)
Interest income	(49,294)	(16,519)
Interest received	15,856	15,664
Income tax expense (recovery)	380	(5)
Income tax paid	(380)	(277)
<b>Net cash from (used in) operating activities</b>	<u>1,012,616</u>	<u>719,565</u>
<b>Cash flows used in investing activities</b>		
Acquisitions of property and equipment	(323,257)	(132,784)
<b>Net cash used in investing activities</b>	<u>(323,257)</u>	<u>(132,784)</u>
<b>Cash flows from financing activities</b>		
Subsidy payment received	291,567	3,057,172
Less subsidy recognized	(806,913)	(3,485,277)
Purchase of short-term investments	-	(500,000)
Warrant exercises	13,455	-
Payment of lease liabilities	(476,595)	-
Repayment of borrowings	(250,949)	(271,183)
Contributions from CARES (PPP)	59,580	-
Contributions from WINN	474,747	311,196
<b>Net cash from financing activities</b>	<u>(695,108)</u>	<u>(888,092)</u>
<b>Net increase in cash and cash equivalents</b>	(5,749)	(301,311)
Cash and cash equivalents, beginning	4,127,648	2,406,769
Effect of exchange rate fluctuations on cash held	(14,416)	(64,820)
<b>Cash and cash equivalents, ending</b>	<u>4,107,483</u>	<u>2,040,638</u>

# 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. Flyht is publicly traded as FLY in Canada on the TSX.V; and as FLYLF in the USA on the OTCQX. Flyht is based in Calgary, Canada with an office in Littleton, Colorado and is an AS9100 Quality registered company. For more information visit [www.flyht.com](http://www.flyht.com).

The condensed consolidated interim financial statements of the Company as at and for the periods ended September 30, 2020 and 2019 consist of the results of the Company and its subsidiaries.

Flyht provides airlines with Actionable Intelligence to transform operational insight into immediate, quantifiable action, delivering industry leading solutions to improve aviation safety, efficiency and profitability. This unique capability is driven by Flyht’s patented aircraft certified hardware products including AFIRS™, a satcom aircraft interface device which enables real-time streaming of flight information, cockpit voice and black box data streaming and TAMDAR™, which aggregates and streams airborne weather data in real-time.

## 2. Basis of preparation

### *(a) Basis of accounting*

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, 2019. These condensed consolidated interim financial statements were approved by the Board of Directors on November 5, 2020.

### *(b) Basis of measurement*

The 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*

The 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. At September 30, 2020, the Company had positive working capital of \$6,491,959 compared to positive \$2,814,469 as of September 30, 2019, an increase of \$3,677,490.

For the Company to continue as a going concern longer-term, it will need to achieve profitability and positive operating cash flows. The Company will continue to expand its earnings and cash flow potential through its focused marketing efforts, expected to result in additional contracts for delivery of hardware units and related services.

Until achieving positive earnings and cash flows, it is the Company’s intention to continue to fund operations through revenue and its resulting cash flow as well as continue to manage outgoing cash flows. The Company may have to scale back operations to create positive cash from existing revenue and/or raise the necessary financing in the capital markets through debt and/or equity.

The negative impact to the commercial air industry by the COVID-19 pandemic is unprecedented. Flyht expects to see near and intermediate term risk in all aspects of revenue and timing of trade receivable payments due to the impact of the pandemic on our customers. This risk will also imperil Flyht’s cashflows until such a time as the industry recovers. There exists a possibility that an extended industry recovery could cause Flyht to dramatically diminish the scale of its operations and, in the limit, become illiquid.

There is no assurance that the Company will be successful in attaining and sustaining profitable operations and positive cash flow and/or raising additional capital to meet its 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 material uncertainties may cast doubt upon the Company's ability to continue as a going concern. The condensed consolidated interim financial statements do not reflect adjustments that would otherwise be necessary if the going concern assumption was not valid, such as revaluation to liquidation values and reclassification of statement of financial position items.

### **3. Significant accounting policies**

The accounting policies set out in note 3 of the Company's December 31, 2019 consolidated financial statements have been applied consistently to all periods presented in these condensed consolidated interim financial statements, unless otherwise indicated. These accounting policies have also been applied consistently by the Company's subsidiaries.

Government grants related to distribution and administration expenses are recognized in profit or loss to match the cost that they are intended to compensate when there is reasonable assurance that the grant will be received, and the Company will comply with the conditions associated with the grant.

### **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.

### **5. Measurement of fair values**

A number of the Company's accounting policies and disclosures require the measurement 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) Trade and other receivables, trade payables and accrued liabilities: carrying value approximates fair value, due to the short-term nature of the instruments.
- (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. In respect of the liability component of convertible debentures, the market rate of interest is determined by reference to similar liabilities that do not have a conversion feature.
- (c) Share based payment transactions and warrant modifications: measured using the Black-Scholes option pricing model;

### **6. Lease liability**

On March 1, 2020 the leasing arrangement for the new corporate head office of Flyht commenced. The terms of the lease include a 16-month period, followed by an initial 10 year contract term with annual payment amounts beginning at \$261,606 for the first 3 years, escalated by approximately 6% for years 4-6, an additional 6% for years 7-9, and an additional 6% for the final year. At inception in Q1 2020, the Company recognized a right of use asset of \$2,213,382 in Property and Equipment and a lease liability for the same amount. The amount was determined using a discount rate of 3.95%, based on the incremental borrowing rate of the Company, and a lease term of 136 months. Amortization of the asset and accretion of the associated lease liability commenced on March 1, 2020.

The lease for Flyht's former corporate head office was fully amortized in Q3 2020 in conjunction with the move to the new office space. The lease contract for the former premises expires in February 2021 with lease payments continuing until lease completion.

### **7. Share based payments**

The Company grants stock options to its directors, officers, employees and consultants. In the second quarter of 2020 the Company granted 755,300 options under this stock option plan. These options expire June 23, 2024 and have an exercise price of \$0.59 per share, with options vesting 1/3 on each of June 23, 2021, 2022, and 2023. The options were granted at an exercise price not less than fair market value of the stock on the date of issuance.

## 8. Earnings per share

The calculation of basic and diluted earnings per share for the three months ended September 30, 2020 was based on a weighted average number of common shares outstanding of 26,663,861 (basic and diluted) (September 30, 2019: 21,319,108 basic and diluted).

The calculation of basic and diluted earnings per share for the nine months ended September 30, 2020 was based on a weighted average number of common shares outstanding of 26,662,827 (basic and diluted) (September 30, 2019: 21,164,786 basic and 21,398,438 diluted).

## 9. Disaggregation of revenue

The Company has one operating segment. The following revenue is based on the geographical location of customers. All non-current assets reside in Canada, with the exception of property and equipment valued at \$113,700, a leased building valued at \$459,022, and non-current inventory valued at \$626,018 located at Flyht's offices in Littleton, CO.

	For the three months ended September 30		For the nine months ended September 30	
	2020	2019	2020	2019
	\$	\$	\$	\$
United States & Mexico	599,160	1,651,684	5,464,018	5,970,129
Asia	265,416	2,060,259	1,047,207	3,357,496
China	278,081	559,207	1,215,430	2,888,171
Middle East	177,935	279,320	672,146	1,820,892
Canada	276,202	226,427	841,114	1,242,488
Australia	80,264	175,998	337,917	489,088
Africa	148,952	143,588	407,773	453,095
Europe	81,446	111,106	164,473	427,269
South/Central America	10,954	79,857	123,721	240,919
<b>Total</b>	<b>1,918,410</b>	<b>5,197,446</b>	<b>10,273,799</b>	<b>16,889,547</b>

The following shows revenue per major product and service categories.

	For the three months ended September 30		For the nine months ended September 30	
	2020	2019	2020	2019
	\$	\$	\$	\$
SaaS	1,652,001	2,649,345	5,695,706	7,535,457
Hardware	137,137	1,864,523	815,661	5,994,095
Licensing	86,033	589,546	3,582,805	2,468,820
Technical Services	43,239	94,032	179,627	891,175
<b>Total</b>	<b>1,918,410</b>	<b>5,197,446</b>	<b>10,273,799</b>	<b>16,889,547</b>

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 units, use of functions such as the satellite phone and the sale of weather data collected by units. These usage fees are recognized as the service is provided based on actual customer usage each month. **Hardware** includes the income from hardware sales and related parts required to install the unit, spare units, spare installation parts, and Underfloor Stowage Units. **Licensing** includes sales of modems with a related manufacturing license fee. **Technical Services** includes services offered by the Company, including repairs and other expertise. The Company has not disclosed transaction price allocated to remaining performance obligations for SaaS and Technical services, as revenue for these performance obligations is recognized using the practical expedient to recognize revenue at the amount to which the Company has a right to invoice.

### Major customers

Revenues from the three largest customers represent approximately 44.3% and 54.4% of the Company's total revenues for the three and nine months ended September 30, 2020 (2019: 57.1% and 44.5%).

## 10. Cash flow movement of liabilities arising from financing activities

Under the Strategic Aerospace and Defence Initiative (SADI), the Company has, at September 30, 2020, an outstanding repayable balance of \$1,389,018. 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 January 31, 2029 (adjusted from April 30, 2028 in response to the COVID-19 pandemic) when the final payment will be 24.5% of the total contribution received. There was no repayment made in the third quarter of 2020 nor the third quarter of 2019.

In November 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 Company's 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 was received. The amount is repayable over five years commencing January 1, 2020. Amendments in 2020 have adjusted the payment dates due to COVID-19, so that there are no payments scheduled from April – September, 2020 and the final payment date has been pushed back to June 2025. Repayments in Q1 2020 totaled \$117,000.

In November 2018, the Company signed a second contribution agreement with Western Economic Diversification Canada for a WINN loan, to support development of the next generation of AFIRS hardware and embedded software to address parts obsolescence issues and add new market-driven features. Under the terms of the agreement, a repayable unsecured WINN contribution to the value of the lesser of 44% of the eligible project costs to April 30, 2021 or \$2,761,000 will be received. A March 31, 2019 amendment adjusted the end date for eligible project costs to September 30, 2021. The amount is repayable over five years commencing October 1, 2021. At September 30, 2020, the Company had received contributions totaling \$638,529 (December 31, 2019: \$163,782).

## 11. COVID-19

While most industries have felt the effects of COVID-19 over the past several months, the pandemic has substantially impacted commercial aviation. From early January 2020 onward, daily departures from major airports have declined significantly. International travel has been severely curtailed, and airlines are taking extraordinary measures to preserve cash. Industry layoffs and furloughs have been accelerating, accounts payable have been pushed out, and capital equipment orders have been delayed or restructured.

Due to the equity raise in November 2019, which improved the Company's working capital, and the operational progress made throughout 2019, the Company entered 2020 with a relatively robust cash position. Despite the revenue impact of COVID-19 throughout Q2 and Q3, the Company was able to maintain cash levels throughout 2020. The Company anticipates continued negative revenue impact in the near-term due to customers rescheduling orders and decreases in air traffic, which will continue to impact the Company's corresponding hardware and SaaS revenues. This has been reflected in corresponding revenues, and in the negative trend in the bad debt reserve while airline recovery timing is still to be determined. The Company's bad debt reserve at September 30, 2020 has increased to \$650,282 from \$544,880 at December 31, 2019.

To preserve the Company's liquidity through this period of commercial aviation uncertainty, the following measures have been undertaken:

- Focused spending on immediate revenue opportunities
- Access government support
- Cost containment and cash conservation
- Working with existing partner airlines to assist in their recovery
- Focus on development of new long-term SaaS partnerships, including the launch of Actionable Intelligence

The Company will continue to monitor industry conditions and implement these and other measures, as the situation dictates.

As of September 30, 2020, the Company has recognized a total of \$1.8 million in government financial relief related to COVID-19 which has been applied against salaries in all three expense categories (Distribution, Administration and Research & Development). All grant funds received to date have been applied against applicable expenses. The Company has recorded a liability of \$59,580 to reflect the portion of CARES (PPP) that is deemed to be a loan and is estimated to be repayable.

## 12. Contingent liability

As announced on June 30, 2020, the Company has received a statement of claim from Thomas R. Schmutz (former Chief Executive Officer of Flyht) in the amount of \$525,000 CAD in relation to the termination of his employment with the Company. The matters raised in the lawsuit are considered by the Company to be unfounded and unproven allegations that will be vigorously defended. Although no assurances can be given with respect to the outcome of such proceedings, the Company believes it has valid defenses to this claim and accordingly has not recorded any related liability at this time.

# CORPORATE INFORMATION

## Registrar and Transfer Agent

Computershare Trust Company of Canada  
Telephone: 1-403-267-6800  
Online: Investor Centre – contact us section  
[www.computershare.com](http://www.computershare.com)

## Share Listing

Shares are traded on the TSX Venture Exchange (TSX.V: FLY) and the OTCQX Marketplace (OTCQX: FLYLF)

## Investor Relations

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## Directors

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Bill Tempny  
Brent Rosenthal  
Doug Marlin  
Jack Olcott  
Mary McMillan  
Mike Brown  
Nina Jonsson  
Paul Takalo

Executive Chairman, FLYHT Aerospace Solutions Ltd.  
Interim CEO, FLYHT Aerospace Solutions Ltd.  
Mountain Hawk Capital Partners, LLC  
President, Marlin Ventures Ltd.  
President, General Aero Company  
Director  
Partner, Nanaimo Law  
Director  
Director

## Officers

Bill Tempny  
Alana Forbes  
Matieu Plamondon  
Derek Graham  
Derek Taylor

Interim CEO  
Chief Financial Officer  
Chief Operating Officer  
Vice President Business Development  
Vice President Sales and Marketing

## Auditor

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