

2020

MANAGEMENT DISCUSSION & ANALYSIS

FLYHT AEROSPACE SOLUTIONS LTD.



LETTER TO SHAREHOLDERS



I do not think anyone in the world minded seeing 2020 come to a close. It was a difficult year for so many, including the aviation industry and FLYHT. In a recent note to customers, Delta's CEO Ed Bastian said, "We're hopeful for an inflection point in the spring where the virus will be more contained, leading to the reopening of international borders and increased confidence in public life." While we at FLYHT share Ed Bastian's cautious optimism, we know that hope is not a strategy, so we have taken direct measures to ensure that we not only survive the pandemic intact, but that we emerge on the other side in a strong position to return to growth and value creation. We are hard at work to turn our hope for a better future into reality.

Throughout the pandemic, we have remained disciplined managers and stewards of your capital, all while continuing to advance our strategy. We have conserved cash, scrutinized expenses very carefully and aligned our resources with the products and services that will be most useful for our customers to recover from this global economic disaster. Our efforts have enabled FLYHT to finish 2020 with more cash than we started with, a roster of new and reborn clients that are very glad to work with us to assist them in their recovery efforts, a revitalized team focused on those efforts, and support from our board and shareholders to provide the right tools to our industry in its time of need. We have deployed our existing tools in new and imaginative ways, have attracted launch customers for Actionable Intelligence helping define the high value services we can add, and with the support of the Canadian and U.S. governments, kept our core competency of staff engaged and productive while keeping them safe from COVID by strict compliance with health authority recommendations.

While our revenues and earnings were down in 2020, the moral and enthusiasm of our staff to help our customers remains unwavering. We have already had one customer re-emerge from receivership and re-signed for services from us. We have additional customers that are in the process and we believe we will end the pandemic with more customers that we started with, which is a very promising thing for us and our shareholders.

One of the trends we notice is that "aviation" is a very broad description of the industry we serve. China is on its way to recovering fully, while Malaysia, a mere two-hour flight away, has been locked down for months, international borders remain closed and no reopening date announced. Our cargo carriers, remote operators in Northern Canada and Africa, and our eastern European operators are running at nearly 2019 levels, while our sun destination, vacation carriers are slowed to a near stop. We are fortunate to have a diverse client base and with 30 new ultra low-cost carriers being announced globally since the pandemic began, are confident that there are lots of new opportunities coming our way in 2021 and beyond.

We have an expanded suite of new tools and products ready to go to market starting in Q2 of this year, with launch customers announced. We are working to quantify the savings we can bring to help everyone recover as quickly as possible once the vaccines are administered, borders are opened, people can get out of the house and see families, go on vacations, or resume business travel.

We are working on new low-cost hardware to drive our Actionable Intelligence initiatives and developing state-of-the-art solutions for our SaaS business. We are also having clients drive our initiatives to ensure we are working on what the industry needs, and management feels very positive about the possibility of growing our skill sets and geographical representation with acquisitions and mergers that will broaden our service offering and strengthen our ability to provide unique solutions to our customers.

Provided the anticipated vaccination programs around the world occur as planned and there is some level of support for airlines, we are optimistic that the pent-up demand for travel globally will drive a resurgence for our customers. FLYHT is focused on being part of that recovery. We have a great set of launch customers for our Actionable Intelligence tools and are looking to implement those tools across our existing base of over 80 customers as well as to new customers this year and for a long time to come.

FLYHT has been through many cycles in the industry and is here for the long term with new and innovative solutions, strong staff and clear focus on how to help our industry get back on its feet.

We thank our shareholders, staff, board, and customers for helping us come through 2020 in a strong position to deliver quality results going forward. As always, we are happy to talk to any of you at any time.

Yours Truly

A handwritten signature in blue ink, appearing to read "W. Tempany".

William T. Tempany
Interim Chief Executive Officer

MANAGEMENT DISCUSSION & ANALYSIS

This management discussion and analysis (“MD&A”) is as of April 7, 2021 and should be read in conjunction with the audited annual consolidated financial statements of FLYHT Aerospace Solutions Ltd. (“” or the “Company”) as at and for the years ended December 31, 2020 and 2019 and the accompanying notes. Additional information with respect to FLYHT can be found on SEDAR at www.sedar.com. The Company has prepared its December 31, 2020 consolidated financial statements and the notes thereto in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”). The Company’s accounting policies are provided in note 3 to the consolidated financial statements.

Non-GAAP Financial Measures

The Company reports its financial results in accordance with International Financial Reporting Standards (IFRS) or Generally Accepted Accounting Principles (GAAP). It also occasionally uses certain non-GAAP financial measures, such as working capital, 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, visit www.flyht.com.

FLYHT's hardware products, software applications and communication systems 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 is 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 transmits this information in real-time 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 many value-added solutions including tracking aircraft, fuel management and monitoring aircraft health as well as weather observations that include humidity data. FLYHT's global satellite coverage is enabled by the Iridium satellite network, providing service to our customers anywhere on the planet. AFIRS has been tested with several other satellite systems successfully including streaming both Black Box voice and data transmission in real time.

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. This accurate tracking is being transformed into actionable intelligence with ground handling personnel to improve turn times and delay avoidance in schedule disruption.

FLYHT received regulatory certification for installation of AFIRS on most 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. Our inhouse certification group allows us to add new data sources very easily to the reporting capabilities of AFIRS.

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 except during COVID lockdowns) and continuous observations including all of the metrics of Radiosonde observations plus icing and turbulence.

Like the data traditionally gathered by weather balloons worldwide, the 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. A recent NOAA article shows the importance of this specialized data.



Conclusions

- Aircraft obs remain the **most important** obs type for rapidly-updating short-range regional NWP models. (2020 paper update from 2017 paper)
- Impacts likely underestimated in this retrospective study due to unreduced aircraft ob assimilation in GFS (through lateral boundary conditions and via partial cycling).
- COVID-19: Realtime NWP impacts are challenging to detect, but controlled experiments reveal statistically significant increased 6-12h forecast error over US in RAP model from reduced aircraft reports.
- Averaged across summer and winter seasons, and across tropospheric temperature, winds, and RH, **excluding 80% of aircraft obs** leads to a **12%** short-range forecast degradation, compared with **30%** degradation when **all aircraft obs** are denied.
- **Published articles:**
 - Overall obs impact assessment with RAPv3: <https://doi.org/10.1175/MWR-D-16-0398.1>
 - Aircraft-specific experiments and COVID-19: <https://doi.org/10.1175/JAMC-D-20-0010.1>

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 alerts and real-time status updates all within 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 actually 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.

FLYHT's Actionable Intelligence takes advantage of health monitoring solutions 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 enable 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 axillary 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™

FLYHTStream 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 FLYHT's 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 provides a visualization of flight information along with weather data and overlays. As well, the interface provides 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, FLYHT 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 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
P										Airbus A330
	A		A						A	ATR42 -300
	A									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							Boeing B737 -900ER
	A									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							Bombardier DHC 8 -400
A	A	A	A	A	A		A			Bombardier CRJ 100, 200, 440
	A		A		A		A			Bombardier CRJ -700, 900
A		A								McDonnell Douglas DC-10 (KC-10 military)
			A							McDonnell Douglas MD-82
	A		A							McDonnell Douglas MD-83
A										Fokker 100
A	A	A	A	A	A					Hawker Beechcraft -750, 800XP, 850XP, 900XP
A										Viking Air DHC -7 (LSTC)
	A		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*
		A*											
A*	A*			A*	A*	A*	A*						
A*	A*	A*	A*										
A													
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		A*											
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A	A												

Chart Legend: TAMDAR (TR) or FLIGHTLINK (FL) model, A = Approved, P = Pending, I = In Progress * = Partnered with 3rd 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. There has been substantial change in industry conditions as a result of 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 may impact the airline industry's ability to pay for services and capital expansion, which may cause a decrease in spending in these areas. Still relevant for 2021, in May 2020 ANNA.aero reported on a global survey authored by Fast Futures, which 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 Q1 2021

International Air Transport Association's (IATA) industry results, measured in Revenue Passenger Kilometres (RPK) and Cargo Tonne Kilometers (CTKs) are the passenger and freight contributions to airline revenue and are significant markers to determine the health of the industry.

Air travel (measured by RPKs) fell again in early 2021 from levels in December 2020, with January 2021 being 72% lower than in the pre-crisis month of January 2020. This setback for the airlines' passenger business was driven by a tightening by governments of travel restrictions across the world, following the emergence of COVID-19 variants. Most important were restrictions imposed on domestic travel in China. A sharp decline in travel on China's domestic market accounted for most of the early 2021 decline in global travel.

The continued weakness of air travel is in marked contrast to the optimism shown outside the aviation sector in stock market prices and in business confidence surveys. This adds to the evidence that there is substantial pent-up demand to fly. Government travel restrictions continues to be the main constraint. The global air travel market deteriorated further in February 2021, as Chinese New Year travel was weaker than usual, and travel restrictions tightened further in several countries. At the end of September 2020, IATA had reported that Chinese domestic travel had come back to 2019 levels, however, second wave issues obviously affected that recovery. Some rebound looks likely in the second quarter but Q1 2021, and probably Q2 2021, will be weaker than expected for the air passenger business.

The air cargo business, in marked contrast to the state of the air passenger business, is flourishing. Volumes (measured by cargo tonne km flown) regained pre-crisis levels in January 2021, with CTKs 1.1% higher than January 2020. Revenues are stronger, as yields remain elevated due to the lack of capacity from the wide body passenger aircraft fleet. Strong cargo revenues are making a difference for some airlines and some long-haul routes (where high yielding cargo can make up for the loss of high yielding business passengers). But before the crisis cargo revenues were only 12% of total revenues, so this is not a large enough business to offset the massive and continuing loss of passenger revenues.

Defense & Security Monitor reported results from large commercial aircraft manufacturers demonstrate the fallout from COVID-19 Boeing and Airbus delivered 39 and 89 commercial jets in December 2020, compared to 35 and 138 deliveries, respectively, in December 2019. For the full year 2020, Boeing delivered 157 aircraft, compared to 380 and 806 in 2019 and 2018, respectively. In 2020, Airbus delivered 566 aircraft and won the deliveries crown for the second year in a row. Airbus deliveries were down from 863 and 800 in 2019 and 2018, respectively.

Avweb reported aircraft manufacturer Embraer announced that it delivered a total of 130 aircraft in 2020, a drop of almost 35% compared to 2019. Of the 44 commercial aircraft and 86 executive jets shipped by Embraer this year, 71 were handed over in the fourth quarter of 2020. These Q4 2020 deliveries, which were 10 aircraft under the same time period in 2019, included 28 commercial aircraft and 43 executive jets.

Bombardier and De Havilland deliveries have significantly reduced over the past year. Bombardier's reduction is a result of the disposal of the CRJ program to Mitsubishi Heavy Industries (MHI), who have in turn ended CRJ production as of December 31, 2020 to focus on their own regional jet model, the MRJ. De Havilland's anticipated reduction in deliveries for 2021 is the result of a pause in production while they relocate to a new manufacturing facility, due to low current aircraft demand and that the Downsview location lease is set to expire in 2021.

FLYHT's Market

FLYHT's core technology, which leverages 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.

In 2020, FLYHT launched our most advanced SaaS software to date, "Actionable Intelligence". Actionable Intelligence is a sophisticated toolset allowing us to deliver an incredibly valuable entrance into the world of artificial intelligence. FLYHT's Actionable Intelligence provides insight into our customers' total operations to identify 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 is 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 continues to make 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 2020⁽⁸⁾ and the Company experienced a resulting negative impact to net income compared to 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 throughout 2020. 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.

Environmental, Social and Corporate Governance

Sustainability has been integral to FLYHT's operations for many years. Early initiatives had FLYHT playing a key role in the effort to achieve a paperless cockpit, reducing waste and improving operational efficiency. More recently, FLYHT has been working to improve fuel conservation and reduce emissions by ensuring proper aircraft maintenance and trim. Engine performance monitoring helps further improve engine efficiency for our customers. The development and deployment of tools that help FLYHT and its customers serve as industry leaders in the responsible use of resources is a critical component of our drive toward sustainable growth and profitability. FLYHT's corporate policies are dedicated to achieving a paperless operation, improving efficiency in our use of resources and staying abreast of the UN's Sustainable Development Goals.

FLYHT is committed to diversity, providing an open multicultural friendly workplace that recruits and rewards people based upon skill and most recently focusing on improving our gender mix. Providing an equal opportunity workplace where everyone contributes to the corporate goal of helping the industry FLYHT serves be as efficient as possible is at the core of FLYHT's purpose.

FLYHT is fully committed to do what it takes to succeed in this area and has developed specific goals and action plans that reflect this responsibility.

2020 Contracts, Achievements and Activities

Contracts

FLYHT received USD\$7.9 million in new sales contracts and purchase orders related to 2020 and future years. 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. These contracts and purchase orders included:

Fourth Quarter

- A purchase order from an international aircraft manufacturer to provide software improvements, ensuring continued future delivery of licensing revenue
- An additional order of AFIRS hardware for delivery in Q4 2020 from Integrated Procurement Technologies
- The return of Corvus Airlines following Chapter 11, with full services resumed on their DHC-8 fleet
- A further one-year contract extension with Environment and Climate Change Canada for the delivery of AMDAR data

Third Quarter

- An order from China Express to factory install AFIRS on 20 ARJ 21 aircraft, in tandem with the announcement of China Express as a launch partner for FLYHT's Actionable Intelligence solution
- A purchase order for Q3 2020 certification engineering support

Second Quarter

- A trial agreement with a meteorological agency for the delivery of TAMDAR data
- A five year contract to provide FLYHTLog to a new customer on an aircraft acquired with AFIRS installed
- Five AFIRS 228S installation kits to an existing Chinese airline customer to support their expanding fleet

First Quarter

- A one-year contract extension with Environment and Climate Change Canada for the delivery of Aircraft Meteorological Data Relay (AMDAR) data
- Two AFIRS 228S kits to an existing Chinese airline customer
- An existing partner leased an AFIRS 228B equipped aircraft to an African operator who activated data services on a five-year contract
- Three AFIRS 228B kits to a new aircraft leasing customer
- One AFIRS 228S kit to a European operator to implement Future Air Navigation System (FANS) safety services voice and data
- One AFIRS 228B kit to an existing African operator customer
- A US \$2.43 million purchase order for Iridium modems and license fees from a long-time OEM customer

Achievements & Activities

Fourth Quarter

- FLYHT shipped 24 kits in Q4 2020 and finished the year with higher cash reserves than the year prior (see *Liquidity and Capital Resource* Section)
- Appointed Derek Graham VP of Business Development and Darrel Deane as VP Solutions

Third Quarter

- Amended the July 2018 warrants, extending the expiry date to December 24, 2020 and amending 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

Second Quarter

- Barry Eccleston named Executive Chairman of the Company's board of directors; Bill Tempany named interim CEO
- Incentive stock options for an aggregate 755,300 common shares were granted, to employees, officers and directors under the stock option plan approved at the Annual and Special meeting held on June 23, 2020
- Received funds under two programs designed to support Canadian and American small businesses during COVID-19
- Commencement of training on Agile development methodology for all staff to be completed by August of 2020
- First proposals for Actionable Intelligence delivered to three prospective customers

First Quarter

- Expanded its STC portfolio, by transferring an FAA STC from our third-party certification partner, and also by successfully adding the A320Neo "NX" models to an existing EASA STC
- Reported sales order backlog of approximately \$52 million
- Promoted seasoned aviation executive Derek Taylor to Vice President, Sales and Marketing
- Provided worldwide meteorological organizations a temporary, free license to utilize TAMDAR weather data sets to help offset the recent decrease in accessible data due to COVID-19
- FLYHT shared its preliminary strategic response to the COVID-19 pandemic and its negative impact on commercial aviation

Results of Operations

Selected Results

	Q4 2020 \$	Q3 2020 \$	Q2 2020 \$	Q1 2020 \$
Assets	13,736,235	15,698,866	17,266,441	18,513,259
Non-current financial liabilities	5,169,462	7,001,557	7,376,115	7,073,883
Revenue	3,379,186	1,918,410	3,060,157	5,295,232
Cost of sales	1,486,063	590,375	993,846	1,325,602
Gross margin	1,893,123	1,328,035	2,066,311	3,969,630
Gross margin %	56.0%	69.2%	67.5%	75.0%
Distribution expenses	1,529,436	589,830	1,163,957	2,108,641
Administration expenses	1,240,943	1,030,074	686,489	1,099,130
Research, development and certification engineering expenses	956,556	1,012,543	440,818	928,325
Results from operating activities	(1,833,812)	(1,304,412)	(224,953)	(166,466)
Depreciation	176,702	224,539	199,673	267,404
Other income	-	-	178,412	628,500
EBITDA*	(1,657,110)	(1,079,873)	153,132	729,438
Income (loss)	(1,999,715)	(1,647,249)	(276,515)	686,022
Income (loss) per share (basic)	(0.08)	(0.06)	(0.01)	0.03
Income (loss) per share (diluted)	(0.08)	(0.06)	(0.01)	0.03
	Q4 2019 \$	Q3 2019 \$	Q2 2019 \$	Q1 2019 \$
Assets	14,736,226	11,529,110	10,988,820	12,177,007
Non-current financial liabilities	4,618,014	4,685,813	4,862,450	5,532,865
Revenue	4,281,612	5,197,446	6,350,349	5,341,752
Cost of sales	1,595,421	2,674,856	2,141,376	2,432,704
Gross margin	2,686,191	2,522,590	4,208,973	2,909,048
Gross margin %	62.7%	48.5%	66.3%	54.5%
Distribution expenses	1,992,477	1,941,927	2,294,519	2,066,846
Administration expenses	1,199,149	941,060	1,118,420	955,290
Research, development and certification engineering expenses	1,100,961	939,935	1,020,747	707,871
Results from operating activities	(1,606,396)	(1,300,332)	(224,713)	(820,959)
Depreciation	253,614	215,881	191,591	180,332
Other income	641,296	623,544	1,544,756	1,316,977
EBITDA*	(711,486)	(460,907)	1,511,634	676,350
Income (loss)	(1,212,971)	(777,648)	1,037,326	206,658
Income (loss) per share (basic)	(0.06)	(0.04)	0.05	0.01
Income (loss) per share (diluted)	(0.06)	(0.04)	0.05	0.01

*See Non-GAAP Financial Measures

Weighted Average Shares Outstanding

	2020 \$	2019 \$	2018 \$
Basic	26,677,439	21,861,196	21,058,855
Diluted	28,457,009	22,028,060	21,132,875

Financial Position

Liquidity and Capital Resource

The Company's cash and cash equivalents at December 31, 2020 increased to \$5,127,963 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 December 31, 2020.

The Company funded Q4 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 2021.

	December 31, 2020	December 31, 2019	Variance
	\$	\$	\$
Cash and cash equivalents	5,127,963	4,127,648	1,000,315
Trade and other receivables	1,587,275	4,980,405	(3,393,130)
Contract assets	187,892	256,125	(68,233)
Deposits and prepaid expenses	544,052	797,759	(253,707)
Inventory	1,561,959	1,672,068	(110,109)
Trade payables and accrued liabilities	(2,128,941)	(2,346,560)	217,619
Customer deposits	(492,679)	(160,706)	(331,973)
Contract liabilities	-	(658,655)	658,655
Loans and borrowings	(2,376,594)	(718,015)	(1,658,579)
Lease liability	(679,816)	(625,590)	(54,226)
Working capital*	3,331,111	7,324,479	(3,993,368)

*See Non-GAAP Financial Measures

In 2020 warrant exercises resulted in the Company issuing 624,696 shares for total proceeds of \$382,552. No options were exercised nor were any debentures converted in 2020.

As at April 7, 2021 FLYHT's issued and outstanding share capital was 27,279,024.

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 both 2020 and 2019, cash flow from operations in 2020 was positive. At December 31, 2020, the Company had positive working capital of \$3.3 million compared to positive \$7.3 million as of December 31, 2019, a decrease of \$4.0 million. The Company ended 2020 with balances of \$5.1 million in cash and cash equivalents, an undrawn credit facility of \$1.5 million, and \$2.0 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. Since early 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 began to see some recovery in our customers, with aircraft re-commencing operations as well as receivable payments being made. In Q4 2020 some of that recovery was lost to the second wave of the pandemic impacting several parts of the world. 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 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 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 consolidated financial statements do not reflect adjustments that would otherwise be necessary if the going concern assumption was not valid, such as revaluation to liquidation values and reclassification of statement of financial position items.

Financial Instruments

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

The Company may be exposed to changes in interest rates as a result of the operating loan bearing interest based on the Company's lenders' prime rate. This facility was undrawn as at December 31, 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.

The recoverability of the Company's receivables has been impacted by the consequences of the COVID-19 virus on the global airline industry. As at April 7, 2021 \$1,269,428 of the balances outstanding at December 31, 2020 had been collected.

Contractual Obligations

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

December 31, 2020	< 2 months	2-12 months	1-2 years	2-5 years	> 5 years	Total
	\$	\$	\$	\$	\$	\$
Accounts payable	1,120,306	-	-	-	-	1,120,306
Compensation and statutory deductions	491,401	429,293	-	-	-	920,694
Accrued liabilities	87,941	-	-	-	-	87,941
Lease payments	199,546	480,269	370,591	820,825	1,511,590	3,382,821
Loans and borrowings	235,820	2,334,476	1,201,697	2,119,770	1,585,051	7,476,814
Total	2,135,014	3,244,038	1,572,288	2,940,595	3,096,641	12,988,576

Under the Strategic Aerospace and Defence Initiative (SADI), the Company has an outstanding repayable balance of \$1,370,247 at December 31, 2020. 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 2020 (2019: \$137,234), as loan payment schedules were extended by the Canadian government throughout 2020 and into 2021.

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 – December 2020 and the final payment date has been pushed back to September 2025. Repayments in 2020 totaled \$117,000 (2019: nil).

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 December 31, 2020, the Company had received contributions totaling \$788,262 (December 31, 2019: \$163,782).

A summary of the carrying value of the SADI and WINN loans as at December 31, 2020 and 2019 and changes during these periods 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	-	624,480	624,480	-	376,580	376,580
Grant portion	-	(119,047)	(119,047)	-	(114,605)	(114,605)
Interest accretion	201,551	218,871	420,422	224,753	171,597	396,350
Gain on loan modification	(279,723)	(139,959)	(419,682)	-	-	-
Repayment	-	(117,000)	(117,000)	(137,234)	-	(137,234)
Balance December 31	1,262,090	2,470,580	3,732,670	1,340,262	2,003,235	3,343,497
Less current portion	156,258	564,276	720,534	151,750	439,899	591,649
Non-current portion	1,105,832	1,906,304	3,012,136	1,188,512	1,563,336	2,751,848

Convertible Debenture

FLYHT issued an aggregate \$2,000,000 of convertible debentures ("Debentures") on July 24, 2018. The Debentures 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 was 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 December 31, 2020 and changes during the year is presented below.

	2020 \$	2019 \$
Balance January 1	1,535,438	1,727,773
Interest payments	(133,949)	(133,949)
Conversions	-	(315,166)
Accrued interest	254,571	256,780
Balance December 31	1,656,060	1,535,438

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 periods ending December 31, 2020 and 2019. Payments were received for 25 installation kits in the fourth quarter of 2020. For the year ended December 31, 2020, payment has been received for 44 installation kits compared to 91 in 2019.

	Q4 2020 \$	Q4 2019 \$	Variance \$	YTD 2020 \$	YTD 2019 \$	Variance \$
Opening balance	421,865	215,611	206,254	160,706	661,833	(501,127)
Payments received	1,301,877	568,212	733,665	3,410,369	3,931,575	(521,206)
Recognized as revenue	(1,231,063)	(623,117)	(607,946)	(3,078,396)	(4,432,702)	1,354,306
Balance, December 31	492,679	160,706	331,973	492,679	160,706	331,973

Comprehensive Loss

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

	Q4 2020 \$	Q4 2019 \$	Variance \$	YTD 2020 \$	YTD 2019 \$	Variance \$
SaaS	1,627,421	2,711,228	(1,083,807)	7,323,125	10,246,685	(2,923,560)
Hardware	1,490,709	657,577	833,132	2,306,371	6,651,673	(4,345,302)
Licensing	48,068	772,466	(724,398)	3,630,874	3,241,285	389,589
Technical Services	212,988	140,341	72,647	392,615	1,031,516	(638,901)
Total	3,379,186	4,281,612	(902,426)	13,652,985	21,171,159	(7,518,174)

Overall, total revenue decreased 35.5% from \$21,171,159 in 2019 to \$13,652,985 in 2020. An increase in Licensing revenues was more than offset by decreases in the other three categories: SaaS revenues decreased by 28.5%, Hardware decreased by 65.3% and Technical Services revenue decreased by 61.9%.

SaaS Recurring revenue accounted for 48.2% of revenue in Q4 2020 (Q4 2019: 63.3%), and 53.6% YTD 2020 (YTD 2019: 48.4%), as FLYHT experienced greater pandemic impact in the hardware sales category than SaaS. The decrease in SaaS from 2019 to 2020 is due to the decrease in overall customer flights during the COVID-19 pandemic, although this was kept to a minimum by a diverse customer base, as decreases in flights provided by most commercial carriers were offset to a small degree by increases in demands placed on cargo fleets.

Hardware sales declined in 2020 as compared to 2019 as a decreased number of installation kits were shipped, particularly in the first half of 2020 as many customers adapted to the pandemic by reducing their capital expenditures. A total of 34 installation kits were shipped in 2020, compared to 133 in 2019.

Licensing increased in 2020 from 2019 due to differences in the number of modems with related license fees shipped.

Technical Services revenue increased in the Q4 2020 over Q4 2019 while showing a 61.9% decrease year over year. This revenue category can be expected to vary significantly between periods and years, depending on the level of technical services provided to customers in each period.

Revenue sources for the last eight quarters were:

	Q4 2020	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019
SaaS	1,627,421	1,652,001	1,305,049	2,738,654	2,711,228	2,649,345	2,480,880	2,405,232
Hardware	1,490,709	137,137	450,841	227,684	657,577	1,864,523	1,754,672	2,374,901
Licensing	48,068	86,033	1,233,096	2,263,677	772,466	589,546	1,501,513	377,760
Technical Services	212,988	43,239	71,171	65,217	140,341	94,032	613,284	183,859
Total	3,379,186	1,918,410	3,060,157	5,295,232	4,281,612	5,197,446	6,350,349	5,341,752

	Q4 2020		Q4 2019		YTD 2020		YTD 2019	
	\$	%	\$	%	\$	%	\$	%
United States & Mexico	1,163,945	34.4	1,963,440	45.9	6,627,963	48.5	7,907,107	37.4
Asia	464,192	13.7	858,485	20.1	1,511,399	11.1	4,126,531	19.5
China	410,182	12.1	466,239	10.9	1,625,612	11.9	3,360,888	15.9
Middle East	231,510	6.9	179,083	4.2	903,656	6.6	1,999,975	9.4
Canada	697,895	20.7	260,191	6.1	1,539,009	11.3	1,612,114	7.6
Australia	77,094	2.3	275,396	6.4	415,011	3.0	764,484	3.6
Africa	138,055	4.1	146,683	3.4	545,828	4.0	599,777	2.8
Europe	170,211	5.0	53,360	1.2	334,684	2.5	480,629	2.3
South/Central America	26,102	0.8	78,735	1.8	149,823	1.1	319,654	1.5
Total	3,379,186	100.0	4,281,612	100.0	13,652,985	100.0	21,171,159	100.0

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 the fourth quarter of 2020 was 44.0% compared to 37.3% in 2019's fourth quarter. A review of the annual results shows the cost of sales as a percentage of revenue decreased from 41.8% in 2019 to 32.2% in 2020. 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:

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

Distribution Expenses (Recovery)

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

Major Category	Q4 2020 \$	Q4 2019 \$	Variance \$	YTD 2020 \$	YTD 2019 \$	Variance \$
Salaries and benefits	872,747	1,200,751	(328,004)	4,460,350	5,889,166	(1,428,816)
Share based compensation	6,327	8,825	(2,498)	27,208	38,346	(11,138)
Contract labour	306,809	175,557	131,252	765,169	637,992	127,177
Office	20,244	49,324	(29,080)	185,768	223,896	(38,128)
Travel	15,795	124,853	(109,058)	142,160	566,700	(424,540)
Equipment and maintenance	6,322	12,101	(5,779)	42,226	59,132	(16,906)
Depreciation	112,568	122,211	(9,643)	558,960	527,994	30,966
Marketing	44,331	53,962	(9,631)	92,734	116,703	(23,969)
Government grants	(166,284)	-	(166,284)	(1,266,767)	-	(1,266,767)
Bad debt reserve	310,577	244,893	65,684	384,056	235,840	148,216
Total	1,529,436	1,992,477	(463,041)	5,391,864	8,295,769	(2,903,905)

Distribution expenses decreased 35.0% from 2019 to 2020, due mainly to decreased people costs and the receipt of government subsidies.

Salaries and benefits have decreased due to reductions in staff, in line with the Company's strategy of increased emphasis on development and sale of SaaS solutions to support our customers in their post-pandemic recovery plans.

Contract labour increased commencing in the fourth quarter of 2020, as external resources have been engaged to assist in sales and marketing efforts.

Travel expenses have decreased with the institution of travel restrictions throughout 2020 together with the impact of cancelled events throughout the year. As an alternative, the Company has continued these important communications by using online meeting tools.

Office expenses are lower in 2020 compared to 2019 due to differences in operating expenses at the Littleton facilities, together with improvements in overall IT infrastructure that will result in a lower cost structure for that area of the business. Decreased credit receivables premiums were also a contributing factor to the decreases in this category.

Government grants comprises 2020 funding received from both the Canadian (CEWS program) and United States (CARES PPP program) governments, in their support of businesses throughout the pandemic and is an offset to the salaries expense in this category.

Bad debt reserve expense reflects differences in bad debt reserve both in Q4 and YTD 2020.

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	Q4 2020 \$	Q4 2019 \$	Variance \$	YTD 2020 \$	YTD 2019 \$	Variance \$
Salaries and benefits	846,670	587,543	259,127	2,342,232	2,004,409	337,823
Share based compensation	(30,356)	22,141	(52,497)	120,924	101,328	19,596
Contract labour	146,935	93,073	53,862	470,549	399,400	71,149
Office	109,993	132,054	(22,061)	492,879	475,049	17,830
Legal fees	6,472	3,920	2,552	78,889	39,700	39,189
Audit and accounting	43,082	62,861	(19,779)	193,807	293,823	(100,016)
Investor relations	41,374	58,014	(16,640)	170,510	210,772	(40,262)
Travel	4,797	70,071	(65,274)	71,227	225,769	(154,542)
Equipment and maintenance	113,927	56,289	57,638	316,333	213,973	102,360
Government grants	(83,460)	-	(83,460)	(384,286)	-	(384,286)
Depreciation	29,959	96,374	(66,415)	163,580	181,564	(17,984)
Other	11,550	16,809	(5,259)	19,992	68,132	(48,140)
Total	1,240,943	1,119,149	41,794	4,056,636	4,213,919	(157,283)

Administration expenses decreased by 3.7% from 2019 to 2020.

Salaries and benefits and **Contract labour** increased from 2019 to 2020 due to a retiring allowance accrual and a change in the mix of personnel between years.

Share based compensation expense increased from 2019 to 2020, reflecting an increased volatility in share price, and the resulting impact in valuation of options granted under the 2020 stock option plan.

Audit and accounting decreased from 2019 to 2020 due to decreased 2020 revenues as the basis for the Company's financial audit, together with the work required in 2019 regarding the adoption of IFRS16 not being required in 2020, both of which were partially offset by increased work required due to changes in auditing standards.

Investor relations decreased as conferences throughout 2020 were cancelled, and the expenses associated with the November 2019 private placement did not recur.

Travel expenses decreased as international travel was halted throughout 2020 and all in-person conventions and conferences were cancelled. As an alternative, the Company has continued these important communications by using online meeting tools.

Equipment and maintenance increases reflect the spend required in moving to online communication and collaboration tools which have allowed the Company's staff to operate within a flexible work environment, ensuring the team continued to be productive and effective throughout the pandemic.

Government grants comprises 2020 funding received from both the Canadian (CEWS and CERS programs) and United States (CARES PPP program) governments in their support of businesses throughout the pandemic and is an offset to expenses in both the salaries and office categories.

Research, Development and Certification Engineering Expenses (Recovery)

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

Major Category	Q4 2020 \$	Q4 2019 \$	Variance \$	YTD 2020 \$	YTD 2019 \$	Variance \$
Salaries and benefits	886,327	931,011	(44,684)	3,341,024	3,203,141	137,883
Share based compensation	3,693	3,707	(14)	11,754	13,889	(2,135)
Contract labour	75,430	115,326	(39,896)	433,854	255,994	177,860
Office	23,418	42,443	(19,025)	79,493	144,770	(65,277)
Travel	3,379	10,946	(7,567)	16,232	103,357	(87,125)
Equipment and maintenance	8,019	2,885	5,134	21,781	13,297	8,484
Components	13,938	(30,222)	44,160	30,315	16,904	13,411
Depreciation	34,175	35,067	(892)	145,778	131,860	13,918
Government grants	(92,023)	(10,819)	(81,204)	(742,295)	(114,605)	(627,690)
Other	200	617	(417)	306	907	(601)
Total	956,556	1,100,961	(144,405)	3,338,242	3,769,514	(431,272)

Research and Development expenses were 11.4% lower in 2020 compared to the prior year. The main contributors to the decrease were increased people costs as the Company invests particularly in development efforts with regards to its Actionable Intelligence suite of products, offset by government grants received. Research and development costs vary according to specific project requirements.

Both **Salaries and benefits** expense and **Contract labour** increased in 2020 to meet the requirements of R&D-type projects.

Office expenses decreased from 2019 to 2020 due to differences in operating expenses at the Littleton facilities, together with improvements in overall IT infrastructure that has resulted in a lower cost structure for that area of the business.

Travel expenses decreased with the institution of travel restrictions throughout 2020 together with the impact of cancelled events throughout the year. As an alternative, the Company has continued these important communications by using online meeting tools.

Government grants variances reflect differences in pandemic support received from both the Canadian (CEWS program) and United States (CARES PPP program) governments, and in expenses eligible for funding under the WINN program in 2020 versus 2019. Recoveries relating to WINN funding are the portion of the amounts received from WINN that have been accounted for as a grant.

Net Finance Costs

Major Category	Q4 2020 \$	Q4 2019 \$	Variance \$	YTD 2020 \$	YTD 2019 \$	Variance \$
Interest (income)	4,287	(13,290)	17,577	(45,008)	(29,810)	(15,198)
Net foreign exchange loss	113,724	65,962	47,762	139,548	172,495	(32,947)
Bank service charges	6,653	7,786	(1,133)	29,528	29,942	(414)
Other loss (gain)	(144,626)	-	(144,626)	(419,682)	-	(419,682)
Interest expense	34,758	21,225	13,533	134,386	95,050	39,336
Government loan accretion	86,154	105,147	(18,993)	420,423	396,351	24,072
Debenture interest and accretion	64,372	61,037	3,335	254,571	256,780	(2,209)
Net finance costs	165,322	247,867	(82,545)	513,766	920,808	(407,042)

Net foreign exchange loss varies between periods due to fluctuations in the value of the Canadian dollar in relation to the U.S. dollar. A strengthening of the Canadian dollar in 2020 gave rise to smaller foreign exchange losses in 2020 than in 2019 on U.S. dollar denominated sales and purchases, in combination with fluctuations in U.S. denominated assets and liabilities.

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

Other gain is the recognition of the benefit derived from payment deferral of the Company's government loans.

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 Loss

Major Category	Q4 2020 \$	Q4 2019 \$	Variance \$	YTD 2020 \$	YTD 2019 \$	Variance \$
Net income (loss)	(1,999,715)	(1,212,971)	(786,744)	(3,237,457)	(746,635)	(2,490,822)

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 the remainder of 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 have an impact on FLYHT's cashflows until such a time as the industry recovers. There exists a possibility that an extended industry recovery could cause FLYHT 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 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 engages third parties for security assessment and to test the penetrability of the systems according to best practices within the enterprise community. A security breach could expose data to external, unauthorized third parties and cause various contractual breaches. To date, no such breach has knowingly occurred on any of the Company's systems. FLYHT will continue to monitor and improve our solutions, including the security aspect. 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 continually documents and distributes 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

As development of the AFIRS 228, FlightLink and TAMDAR product lines is complete, FLYHT continues to build out its Supplemental Type Certificate portfolio for these products. 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 Enterprise suite of applications including 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 has been installed on over 300 aircraft for the purposes of collecting weather data. FLYHT supplies this weather data to Synoptic Data PBC as part of their participation in the National Mesonet program. FLYHT is receiving revenues from Synoptic based upon this participation, which is correlated to the number and quality of the weather soundings provided. If these observations fall in 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 invest in quality control programs to ensure that the sensors are properly calibrated and producing valid and valuable data, and to supplement this data whenever possible with AMDAR weather 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 has been used for many years but more recently they moved to issuing three-year grants to Iridium Communications Inc. versus the former annual grant system. 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.

Transactions with Related Parties

A company related to an officer of FLYHT provided marketing services in 2020. All of the transactions with the related party were at terms equivalent to those that prevail in arm's length transactions and were supported by a third party receipt.

Amounts included in:	For the three months ended December 31		For the year ended December 31	
	2020	2019	2020	2019
	\$	\$	\$	\$
Contract labour	20,685	-	22,575	-
Accounts payable	10,895	-	10,895	-

COVID-19

While most industries have felt the effects of COVID-19 over the past year, 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. Various segments of the aviation industry have been impacted differently over the past year, with the decline in commercial aviation being partially offset by an increased demand for cargo services. Geographic differences continue to occur, as subsequent pandemic waves affect different parts of the globe at different times, vaccination programs vary greatly between countries, and remote locations of the world maintaining their supply chain and connection to the rest of the world via air transport.

Due to the equity raise in November 2019, which improved the Company's working capital, the Company entered 2020 with a relatively robust cash position. Despite the negative revenue impact of COVID-19 throughout the year, the Company was able to increase 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 December 31, 2020 has increased to \$980,532 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 development on long-term SaaS partnerships, including the launch of Actionable Intelligence
- Focused spending on immediate revenue opportunities
- Access to governmental support
- Cost containment and cash conservation
- Working with existing partner airlines to assist in their recovery

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

As of December 31, 2020, the Company has recognized a total of \$2.1 million in government financial relief related to COVID-19 which has been applied to offset associated expenses in all three expense categories (Distribution, Administration and Research & Development). All grant funds received to date have been applied against applicable expenses.

Subsequent Event

A further amendment was made on March 25, 2021 to the Company's contribution agreement with Western Economic Diversification Canada under the WINN loan agreement originally signed in November 2018. Amended terms extend the timeframe for eligible project cost submission from September 30, 2021 to September 30, 2023 and adjust the repayment start date from October 1, 2021 to October 1, 2023.

Contingent Liability

As announced on June 30, 2020, the Company 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 financial results include a provision based on management's best estimate of the expected costs to settle the matter, which is less than the amount of the statement of claim.

CORPORATE INFORMATION

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

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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

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Derek Graham
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