

2021

SECOND QUARTER

FLYHT AEROSPACE SOLUTIONS LTD.



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Commonly used Financial Terms and Aviation Acronyms

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

LETTER TO SHAREHOLDERS



As I look at the 12 months since I rejoined the management team at FLYHT I cannot help but be proud of what we have accomplished in the most challenging of environments. Throughout the year, we have completely transformed how we approach the business, our customers, our development, and our relationships with other companies in this industry. I am extremely thankful to the team at FLYHT that makes this a great place to work, a leader in customer satisfaction and an innovator in the aviation space we work in.

The July private placement was an important development for our company as it has strengthened our balance sheet to ensure our plans for non organic growth can move forward quickly, our development efforts can proceed as rapidly as possible, and our debt is restricted to long term, low coupon government paper which gives FLYHT a much more sustainable capital structure. The support our shareholders have shown in stepping up to purchase our private placement reflects the confidence they and our board of directors have in the strategic focus we are delivering on, as well as the team we have assembled to make this vision a reality. I am also very pleased that approximately 10% of the total offering of \$6,621,615 was invested by directors, officers and management of the company.

We believe the move from a Satcom provider to a SaaS provider is expected to deliver higher returns to our shareholders as our sales team delivers new customers on the strength of the products our development teams have completed during the COVID lull.

We have a strong sales team that has expanded over the past year to include representation in SE Asia, and in June we hired Mr. Willie Cecil, a very well known industry professional in the wQAR space, who has already been adding tremendous value to our development team, sales team, and marketing group to secure our place in the wQAR space as the world moves from 2G/3G to 4G or 5G and beyond. The announcement of the AFIRS Edge, with the Certus path for our customers, opens whole new markets to us and our sales team is ready and trained to take advantage of the new communications protocols, both terrestrial and airborne, whether satellite or IFE based.

COVID continues to be an issue around the globe, with governmental reactions influencing how and when we will return to some form of normal, which has created uncertainty for our clients in their recovery. New activities in Cuba, South Africa, and other parts of the world, in part influenced by the uncertainties of COVID, will keep some areas of the globe from recovering as quickly as others. Although we are confident that the recovery will come in due time, forecasting when that will be remains challenging as we are dealing with global forces greater than any of us could have expected until recently.

Our financial results are beginning to reflect a recovery in customer confidence and give us increased confidence that airlines are coming back to life: the number of flights contributing to our SaaS revenues is recovering, albeit slowly; shipments of hardware kits has increased; and license revenues are starting to return reflective of an order from a long-time OEM customer. It will be interesting to see how the change in fleet configurations to meet the new traffic patterns will affect both used and new aircraft orders, but we feel confident that we have the approvals in place to capitalize on this shift. We are hopeful that the worst of the pandemic is behind us and that vaccinations continue to outpace new variants. We are ready and able to provide tools, products, services and certifications for our clients to help rebuild their businesses as they emerge from the pandemic.

As always, we thank our loyal customers, shareholders and board for their support and I thank the FLYHT team for their adaptability to be very productive during extremely unusual times, as we all can't wait for normal to return.

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 August 4, 2021 and should be read in conjunction with the audited annual consolidated financial statements of FLYHT Aerospace Solutions Ltd. (“FLYHT” or the “Company”) as at and for the years ended December 31, 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 June 30, 2021 condensed consolidated interim financial statements and the notes thereto in accordance with IAS 34 “Interim Financial Reporting”, as issued by the International Accounting Standards Board (“IASB”).

Non-GAAP Financial Measures

The Company reports its financial results in accordance with International Financial Reporting Standards (IFRS) or Generally Accepted Accounting Principles (GAAP). It also occasionally uses certain non-GAAP financial measures, such as working capital, and earnings before interest, income tax, depreciation and amortization (EBITDA). FLYHT defines working capital as current assets less current liabilities. EBITDA is defined as income for the period, before net finance costs, income tax, depreciation and amortization of assets. These non-GAAP financial measures are always clearly indicated. The Company believes that these non-GAAP financial measures provide investors and analysts with useful information so they can better understand the financial results and perform a better analysis of the Company’s performance and profitability. Since non-GAAP financial measures do not have a standardized definition, they may differ from the non-GAAP financial measures used by other companies. The Company strongly encourages investors to review its financial statements and other publicly filed reports in their entirety and not rely on a single non-GAAP measure.

Forward-Looking Statements

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

Forward-looking information is based on the opinions and estimates of management at the date the statements are made and are founded on the basis of expectations, assumptions and hypotheses made by the Company, including, but not limited to, the following: projected costs, future plans, projected revenues, objectives of management for future operations, trends in the airline industry, the global financial outlook, including, but not limited to, the effects of the COVID-19 virus being experienced worldwide, expanding markets, foreign exchange rate outlooks, sales projections, cost increases and/or decreases as related to marketing, R&D, administration expenses. The forward-looking information included in this this discussion and the letter to the shareholders accompanying this discussion has been prepared using assumptions (all of which are supportable and reflect the Company’s planned courses of action for the next 12 months) as to the *most probable* set of economic conditions. Such assumptions are consistent with the purpose of the information but are not necessarily the most probable in management’s judgement. Factors that could cause actual results to differ materially from those in the forward-looking statements include but are not limited to production rates, timing for product deliveries and installations, Canadian, U.S., and foreign government activities, volatility of the aviation market for FLYHT’s products and services, factors that result in significant and prolonged disruption of air travel worldwide, U.S. and other military activity, market prices, availability of satellite communication, foreign exchange rates, continued availability of capital and financing, and general economic, market, or business conditions in the aviation industry, including, but not limited to, the effects of the COVID-19 virus being experienced worldwide, worldwide political stability or any effect those may have on the Company’s customer base. Investors are cautioned that any such statements are not guarantees of future performance, and that actual results or developments may differ materially from those projected in the forward-looking statements.

Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to have been correct. The Company cannot assure investors that actual results will be consistent with any forward-looking statements; accordingly, readers should not place undue reliance on forward-looking statements. The forward-looking statements contained herein are current only as of the date of this document. The Company disclaims any intentions or obligation to update or revise any forward-looking statements or comments as a result of any new information, future event or otherwise, unless such disclosure is required by law. The forward-looking information has been provided to the readers to assist in assessing the impact of the information disclosed herein on the Company and such forward-looking information may not be appropriate for other purposes. We undertake no duty to update any of the forward-looking information to conform such information to actual results or to changes in our expectations except as otherwise required by applicable securities legislation. Readers are cautioned not to place undue reliance on forward-looking information.

FLYHT Overview

FLYHT provides airlines with Actionable Intelligence to transform operational insight into immediate, quantifiable action, delivering industry leading solutions to improve aviation safety, efficiency and profitability. This unique capability is driven by FLYHT's patented aircraft certified hardware products including AFIRS™, a satcom aircraft interface device which enables real-time streaming of flight information, cockpit voice and black box data streaming and TAMDAR™, which aggregates and streams airborne weather data in real-time. FLYHT is headquartered in Calgary, Canada with an office in Littleton, Colorado, and is an AS9100 Quality registered company. For more information, 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 family of devices 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 various technologies to FLYHT's servers, which use that data to power our solutions which display real-time fleet visualizations and actionable fleet intelligence.

In addition to its data monitoring and flight tracking functions, the AFIRS family of products provides voice and text messaging capabilities in either safety services level security or regular Satcom. 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 coverage is enabled via various satellite ground based networks, providing service to our customers anywhere on the planet.

Additionally, AFIRS is unsurpassed when it comes to automating the collection and dissemination of block and flight times. Accurate Out, Off, On and 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.

FLYHT's 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.

FLYHT's 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. The relative humidity data, gathered throughout an aircraft's flight, makes these weather soundings particularly valuable to meteorologists. 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>

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.

Actionable Intelligence powered by JetBridge™

FLYHT's ground-based, enterprise servers that manage the AFIRS data and integrated airline and airport systems have many operational components which aid in aircraft operations, maintenance, and ground operations as well as flight planning and scheduling. The combination of these data sources and machine learning allows the Company to provide Actionable Intelligence to customers to prevent delays and enhance profitability.

FLYHT 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.

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.

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

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

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

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

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

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

3. Communications

FLYHT provides two-way text messaging to the flight deck through the multi-control display unit (MCDU) or an iPad application. Updated crew assignments, crew repositioning, and tail swaps can be sent to the aircraft directly and in real-time. Real-time text messaging helps manage diversions due to weather, mechanical issues, or other unforeseen situations making it easy for the flight crew and dispatch personnel to keep each other updated on the progress of their flight or any required deviations from plan. Our latest auxiliary hardware tools provide both power and connectivity to the devices used by the pilots to create a safe reliable platform for EFBS.

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

FLYHT has been awarded Canadian, U.S., and Chinese patents for this data-streaming technology (pending in other countries).

4. Weather Observations

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

Provided as an integrated solution to visualizations in the Actionable Intelligence suite, FLYHT's 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 FAA, 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 STC's 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 STC's and TSO's 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 STC's, 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 228 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	A	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									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			A					McDonnell Douglas DC-10 (KC-10 military)
	A		A							McDonnell Douglas MD-82
	A		A							McDonnell Douglas MD-83
A										Fokker 100
A	A	A	A	A	A					Hawker Beechcraft -750, 800XP, 850XP, 900XP
A										Viking Air DHC -7 (LSTC)
	A		A				A		A	Embraer EMB 190
		A								Embraer Legacy 600 and EMB – 135/145

Chart Legend: AFIRS 220 or 228 model, A = Approved, P = Pending (Provisions STC has been received; in final stages before receiving a full STC), I = In Progress.

FLYHT has also received AFIRS 228 STCs for the Bombardier CRJ- 700, 900, Boeing 737-300, -400, -500 and 737-700, -800 from the DGAC (Mexico). FLYHT has received AFIRS 228 STCs for the Boeing 737-300, -400, -500, -700, -800 and the 767-300 from the State Aviation Administration of the Ukraine (SAAU). AFIRS 228 applications are also in progress with the Federal Air Transport Agency of Russia for the Boeing 737, 757 and 767 aircraft.

STC Chart: FLYHTWeather

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

STC Chart: AFIRS Edge

TCCA Canada	FAA USA	EASA EU	CAAC China	ANAC Brazil	
I					Boeing B737 -600, -700, -800

Chart Legend: A = Approved, P = Pending (Provisions STC has been received; in final stages before receiving a full STC), I = In Progress.

Trends and Economic Factors

FLYHT examines the results of measurements made by leading aviation associations and corporations in order to gain insight into 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 continue to face extreme stress at the time of this writing. As airlines experience financial stress, so do suppliers to that industry, such as FLYHT. For virtually all airlines, cash flow is drastically reduced, and although it has impacted the airline industry's ability to pay for services and capital expansion, in some areas of the world such as the United States things appear to be slowly improving. 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; and
- Recovery is expected to take two to three years

The Aviation Industry in Q2 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.

While air travel (measured by RPKs) had fallen in early 2021 from levels in December 2020, with January 2021 being 72% lower than in the pre-crisis month of January 2020, it has since increased in March and again further in May of 2021. This trend is providing optimism for global air recovery. The setback in January of 2021 for the airlines' passenger business was driven by a tightening by governments of travel restrictions across the world, of which many remain in place following the emergence of COVID-19 variants. Most important were restrictions imposed on domestic travel in China.

The uneven pace of recovery 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 continue 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 other 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. Domestic rebound continues to rise in Q2 of 2021; however it will be weaker than expected for the air passenger business due to ongoing COVID-19 variants.

The air cargo business, in marked contrast to the state of the air passenger business, continues to flourish. Volumes (measured by cargo tonne km flown) regained pre-crisis levels in Q1 and Q2 2021, with May 2021 CTKs 9.4% above pre-crisis levels when compared to that of May 2019. 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). FLYHT's pre-crisis cargo revenues were 19% of total revenues, offering a partial offset to the large and continuing loss of passenger revenues.

Defense & Security Monitor reported results from large commercial aircraft manufacturers which reflect the fallout from COVID-19. Boeing and Airbus delivered 79 and 172 commercial jets in Q2 of 2021, compared to 20 and 74 deliveries, respectively, in Q2 of 2020. 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 in 2020, 71 were handed over in the fourth quarter of 2020. These Q4 2020 deliveries, which were 10 aircraft fewer than the same time period in 2019, included 28 commercial aircraft and 43 executive jets.

Bombardier and De Havilland deliveries have significantly declined 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 ongoing 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 their Downsview location lease is set to expire in 2021.

FLYHT's Market

The collection and validation of data on aircraft, communication of that data, and voice and text communications for the crew of the aircraft has always been at the core of FLYHT's technology. The last 12 months have been focused on a vision of adding value to that data, helping our airline customers manage their day of operations costs with Actionable Intelligence driven by data from the aircraft combined with airline and airport systems. The Company's products are broken into 4 main categories:

- Airborne Systems which include the AFIRS product family including the AFIRS Edge, a wQAR announced in June 2021, TAMDAR, an industry leading airborne humidity sensor and various cockpit components;
- Actionable Intelligence which includes the JetBridge™ technology, AHM, engine performance monitoring and many systems to help manage the aircraft when airborne or on the ground;
- Communications which connect air crews, ground crews, contractors and the operations centre or flight planning personnel with real time data and creates the drivers for Actionable Intelligence and EFB applications which provide up to date communications for the flight crew; and
- Weather Systems which include the observation and reporting of real time humidity and other weather information and systems which add value to that data for routing, conditions monitoring and other applications.

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 the profitability of their operations, improving customer satisfaction with better on time performance and allows for empowered employees who are able to solve problems on the spot. Airlines need to align the passenger experience, airline operations and positive working environment for enhanced profit opportunity, supported by a seamless technology partnership.

FLYHT is an industry leader in the efficiency and safety of aircraft. Over the past year, the Company has focused on the development and launch of a cloud-based, scalable solution that enables us to easily ramp-up and increase customers' profitability through the intelligent use of data, current technologies, technology partners and launch customers to direct the high value uses of those technologies. The solution is also 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 Actionable Intelligence capabilities to include additional tracking, data collection, transmission, and analysis to optimize airline operational and maintenance activities. Aircraft health monitoring functions can 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.

Designed to enhance the JetBridge™ suite or to work as a standalone solution integrated with existing airline solutions, this year a new entrant to the AFIRS product family was launched, "AFIRS Edge". The AFIRS Edge solution continues our tradition of gathering aircraft system data and performing edge computation for subsequent off-aircraft delivery; however, it raises the bar in every aspect. Leveraging a relationship with Amazon to utilize their technologies and services, the AFIRS Edge solution is built from the ground up to support "Internet of Things" capabilities. This includes the traditional AFIRS data gathering but expands into a wholly modular approach, providing customers the flexibility to buy only the capabilities they need while also allowing for easy scalability in the future. This one solution expands FLYHT's markets into big-data-on-the-aircraft bulk data harvesting using the world's first 5G aircraft communications, cockpit internet connectivity, wireless quick access recording, electronic flight bag solutions, and expanded global satellite options.

FLYHT's Weather Systems measure relative humidity data, gathered throughout an aircraft's flight, which makes inflight 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 re-routing for airport closures or planning for ground support and gate shutdowns due to severe weather.

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 relied primarily on retrofitting existing aircraft to provide recurring, real-time aircraft data services. Our focus now is on adding value to the data we collect and transport and helping our customers recognize the best financial results through the innovative use of our technologies.

The Canadian dollar gained strength relative to the U.S. dollar through most of Q2 2021 and the Company experienced a resulting negative impact to net income compared to Q2 2020. 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 between Q2 2020 and Q2 2021. 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.

Q2 2021 Contracts, Achievements and Activities

Contracts

FLYHT received US\$4.9 million in new sales contracts and purchase orders in Q2 2021. 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.

- An agreement valued at US\$3.6 million with a major Chinese cargo operator to equip up to an additional 15 aircraft per year over the next five years;
- An agreement with Waltzing Matilda Aviation's new brand, Connect Airlines, to install AFIRS and AI services on their fleet of DHC-8-Q400 turboprop aircraft, valued at US\$1 million over the agreement's five-year term; and
- A follow-on order from a long-time OEM partner for US\$338 thousand in Iridium modems and license fees.

Achievements & Activities

- Nina Jonsson was named Executive Chairman of the Company's board of directors
- Incentive stock options for an aggregate 434,555 common shares were granted to employees, officers and directors under the stock option plan approved at the Annual and Special meeting held on May 6, 2021
- Industry veteran Willie Cecil joined FLYHT as Sales Director
- FLYHT launched sales of AFIRS Edge, an industry leading LTE/5G wireless Quick Access Recorder (wQAR), Aircraft Interface Device (AID) product and edge computing platform, with the first installs planned for late 2021
- A settlement agreement was executed to resolve litigation between the former CEO of FLYHT and the Company

Results of Operations

Selected Results

	Q2 2021 \$	Q1 2021 \$	Q4 2020 \$	Q3 2020 \$
Assets	11,181,967	12,773,454	13,736,235	15,698,866
Non-current financial liabilities*	5,018,668	4,635,956	5,169,462	7,001,557
Revenue	2,926,122	2,691,275	3,379,186	1,918,410
Cost of sales	1,393,065	1,169,621	1,486,063	590,375
Gross margin	1,533,057	1,521,654	1,893,123	1,328,035
Gross margin %	52.4%	56.5%	56.0%	69.2%
Distribution expenses	896,024	1,003,667	1,529,436	589,830
Administration expenses	741,109	769,365	1,240,943	1,030,074
Research, development and certification engineering expenses	1,048,841	919,636	956,556	1,012,543
Results from operating activities	(1,152,917)	(1,171,014)	(1,833,812)	(1,304,412)
Depreciation	172,306	170,398	176,702	224,539
Other income	-	-	-	-
EBITDA*	(980,611)	(1,000,616)	(1,657,110)	(1,079,873)
Income (loss)	(1,395,889)	(912,068)	(1,999,715)	(1,647,249)
Income (loss) per share (basic)	(0.05)	(0.03)	(0.08)	(0.06)
Income (loss) per share (diluted)	(0.05)	(0.03)	(0.08)	(0.06)
	Q2 2020 \$	Q1 2020 \$	Q4 2019 \$	Q3 2019 \$
Assets	17,266,441	18,513,259	14,736,226	11,529,110
Non-current financial liabilities*	7,376,115	7,073,883	4,618,014	4,685,813
Revenue	3,060,157	5,295,232	4,281,612	5,197,446
Cost of sales	993,846	1,325,602	1,595,421	2,674,856
Gross margin	2,066,311	3,969,630	2,686,191	2,522,590
Gross margin %	67.5%	75.0%	62.7%	48.5%
Distribution expenses	1,163,957	2,108,641	1,992,477	1,941,927
Administration expenses	686,489	1,099,130	1,199,149	941,060
Research, development and certification engineering expenses	440,818	928,325	1,100,961	939,935
Results from operating activities	(224,953)	(166,466)	(1,606,396)	(1,300,332)
Depreciation	199,673	267,404	253,614	215,881
Other income	178,412	628,500	641,296	623,544
EBITDA*	153,132	729,438	(711,486)	(460,907)
Income (loss)	(276,515)	686,022	(1,212,971)	(777,648)
Income (loss) per share (basic)	(0.01)	0.03	(0.06)	(0.04)
Income (loss) per share (diluted)	(0.01)	0.03	(0.06)	(0.04)

*See Non-GAAP Financial Measures

Financial Position

Liquidity and Capital Resource

The Company's cash and cash equivalents at June 30, 2021 decreased to \$3,079,255 from \$5,127,963 at December 31, 2020. 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 June 30, 2021.

The Company funded Q2 2021 operations primarily through the proceeds from cash received from sales, funding obtained from the CEWS and CERS governmental programs, a BDC (HASCAP) loan, and contributions from the Western Innovation Initiative (WINN). The Company will strive to self-fund operations through the remainder of 2021.

	June 30, 2021 \$	December 31, 2020 \$	Variance \$
Cash and cash equivalents	3,079,255	5,127,963	(2,048,708)
Trade and other receivables	1,647,436	1,587,275	60,161
Contract assets	218,667	187,892	30,775
Deposits and prepaid expenses	346,187	544,052	(197,865)
Inventory	1,037,612	1,561,959	(524,347)
Trade payables and accrued liabilities	(1,918,856)	(2,128,941)	210,085
Customer deposits	(477,209)	(492,679)	15,470
Loans and borrowings	(2,402,859)	(2,376,594)	(26,265)
Lease liability	(543,127)	(679,816)	136,689
Current tax liabilities	(815)	-	(815)
Working capital*	986,291	3,331,111	(2,344,820)

*See Non-GAAP Financial Measures

As at August 4, 2021 FLYHT's issued and outstanding share capital was 36,416,109.

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. The Company's results showed losses from operating activities in both periods ending Q2 2021 and Q2 2020. At June 30, 2021, the Company had positive working capital of \$986 thousand compared to positive \$3.3 million as of December 31, 2020, a decrease of \$2.3 million. The Company ended Q2 2021 with balances of \$3.1 million in cash and cash equivalents, an undrawn credit facility of \$1.5 million, and \$1.4 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 customers and prospects without requisite capital expenditures by them and thereby return to the Company's core benefit to 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 and particularly through Q1 and into Q2 2021 some of that recovery was lost to the second and third waves of the pandemic impacting several parts of the world, and the impact of the latest variants. 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. These condensed consolidated interim financial statements do not reflect adjustments that would otherwise be necessary if the going concern assumption was not valid, such as revaluation to liquidation values and reclassification of statement of financial position items.

Financial Instruments

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

The Company may be exposed to changes in interest rates as a result of the operating loan bearing interest based on the Company's lenders' prime rate. This facility was undrawn as at June 30, 2021.

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, which was reflected in the bad debt reserve throughout 2020 and 2021.

Contractual Obligations

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

June 30, 2021	< 2 months \$	2-12 months \$	1-2 years \$	2-5 years \$	> 5 years \$	Total \$
Accounts payable	1,244,712	-	-	-	-	1,244,712
Compensation and statutory deductions	276,258	394,776	-	-	-	671,034
Accrued liabilities	3,109	-	-	-	-	3,109
Lease payments	262,791	438,011	274,203	825,726	1,372,606	3,173,337
Loans and borrowings	1,884,425	537,123	704,494	3,303,357	1,401,881	7,831,280
Total	3,671,295	1,369,910	978,697	4,129,083	2,774,487	12,923,472

Government Loans

Funding obtained via four governmental programs are included in the Loans and Borrowings totals on the SFP.

Under the Strategic Aerospace and Defence Initiative (SADI), at June 30, 2021 the Company has an outstanding repayable balance of \$1,212,427. 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. No repayment was made in the second quarter of 2021 (Q2 2020: nil). The carrying value of the amount owing under this program at June 30, 2021 is \$1,201,595 (June 30, 2020: \$1,458,664).

In November 2016, the Company signed a contribution agreement with Western Economic Diversification Canada for a 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 adjusted the payment dates due to COVID-19, so that there were no payments scheduled from April through December, 2020 and the final payment date was pushed back to September 2025. Repayments in Q2 2021 totaled \$117,000 (Q2 2020: nil). The carrying value of the amount owing under this program at June 30, 2021 is \$1,629,535 (June 30, 2020: \$1,833,722).

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 this 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, repayable over five years commencing October 1, 2021. Amendments in 2021 extended the timeframe for eligible project cost submission to September 30, 2023 and adjusted the repayment start date to October 1, 2023. At June 30, 2021, the Company had received contributions totaling \$1,284,548 (December 31, 2020: \$788,262). The carrying value of the amount owing under this program at June 30, 2021 is \$564,349 (June 30, 2020: \$484,672).

In May 2021, the Company received funding of \$250,000 through the BDC's [HASCAP](#) loan program, designed to support small and medium sized businesses affected by COVID-19. This loan carries interest of 4% per annum over a 10-year term commencing May 10, 2021. Payments in the first year following funding are comprised of interest only, with the principal and accrued interest payable over the remaining 9 years. The carrying value of the amount owing under this program at June 30, 2021 is \$250,000 (June 30, 2020: nil).

A summary of the carrying value of the government loans as at June 30, 2021 and 2020 and changes during these three and six months is presented below.

	For the three months ended June 30			For the six months ended June 30		
	2021 \$	2020 \$	Variance \$	2021 \$	2020 \$	Variance \$
Opening Balance	3,212,712	3,575,848	(363,136)	3,732,670	3,343,497	389,173
Received	530,722	114,275	416,447	746,286	404,122	342,164
Grant Portion	(97,090)	(24,348)	(72,742)	(169,003)	(74,496)	(94,507)
Interest accretion	116,135	111,283	4,852	225,388	220,935	4,453
Gain on payment deferral	-	-	-	(498,042)	-	(498,042)
Repayment	(117,000)	-	(117,000)	(391,820)	(117,000)	(274,820)
Carrying amount at June 30	3,645,479	3,777,058	(131,579)	3,645,479	3,777,058	(131,579)
Less current portion	613,985	472,681	141,304	613,985	472,681	141,304
Non-current portion	3,031,494	3,304,377	(272,883)	3,031,494	3,304,377	(272,883)

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. The Debentures are 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. The outstanding debenture face value at June 30, 2021 was \$1,788,874 (December 31, 2020: \$1,674,359).

769,200 warrants (Warrants) were issued to the purchasers of the Debentures. No warrants from this issue remain outstanding at June 30, 2021.

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 June 30, 2021 and 2020 and changes during these three and six months is presented below.

	For the three months ended June 30			For the six months ended June 30		
	2021 \$	2020 \$	Variance \$	2021 \$	2020 \$	Variance \$
Opening Balance	1,721,054	1,597,750	123,304	1,656,060	1,535,438	120,622
Amortization of issue costs	6,036	6,036	-	12,008	12,074	(66)
Accrued interest	61,784	58,270	3,514	120,806	114,544	6,262
Carrying amount at June 30	1,788,874	1,662,056	126,818	1,788,874	1,662,056	126,818
Less current portion	1,788,874	133,949	1,654,925	1,788,874	133,949	1,654,925
Non-current portion	-	1,528,107	(1,528,107)	-	1,528,107	(1,528,107)

Contract Liabilities - Customer Deposits

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

The chart below outlines the movement in the Company's customer deposits throughout the three and six months ending June 30, 2021 and 2020. Payment was received for 17 installation kits in the second quarter of 2021 compared to 12 received in the second quarter of 2020. In the six months ended June 30, 2021 payment was received for 39 kits, compared to 32 in the same period of 2020.

	Q2 2021 \$	Q2 2020 \$	Variance \$	YTD 2021 \$	YTD 2020 \$	Variance \$
Opening balance	860,318	557,515	302,803	492,679	160,706	331,973
Payments received	769,839	578,710	191,129	1,763,537	1,798,714	(35,177)
Recognized as revenue	(1,152,948)	(392,384)	(760,564)	(1,779,007)	(1,215,579)	(563,428)
Balance, June 30	477,209	743,841	(266,632)	477,209	743,841	(266,632)

Comprehensive Income

Revenue

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

	Q2 2021 \$	Q2 2020 \$	Variance \$	YTD 2021 \$	YTD 2020 \$	Variance \$
SaaS	1,446,221	1,305,049	141,172	2,986,045	4,043,704	(1,057,659)
Hardware	1,404,193	450,841	953,352	2,235,897	678,525	1,557,372
Licensing	7,924	1,233,096	(1,225,172)	190,105	3,496,773	(3,306,668)
Technical Services	67,784	71,171	(3,387)	205,350	136,388	68,962
Total	2,926,122	3,060,157	(134,035)	5,617,397	8,355,389	(2,737,993)

For the three months ended June 30, 2021, total revenue decreased 4.4% from \$3,060,157 in Q2 2020 to \$2,926,122. An indicator of the beginning of recovery from the financial impact of COVID-19 is the hardware revenue increase of 211.5% as compared to the same quarter last year. The Licensing revenue decrease of 99.4% reflects the typical pattern of inconsistent revenue timing in this category.

SaaS revenue increased in Q2 2021 as compared to Q2 2020 as customers' flight hours and active aircraft in some geographies have begun to rise. The pandemic low in FLYHT's SaaS billed to customers was experienced in Q2 2020.

Hardware revenue increased in Q2 2021 as compared to Q2 2020 as several customers moved forward with kit orders that had been delayed during 2020. Revenue was recognized for 24 installation kits in Q2 2021, compared to 3 in Q2 2020.

Licensing revenue decreased from Q2 2020 due to differences in the number of modems and associated license fees ordered for delivery in Q2 2021.

Technical Services revenue decreased in Q2 2021 as compared to Q2 2020. This revenue category can be expected to vary significantly between periods and years, depending on the level of additional technical services provided to customers in each relevant period.

Revenue sources for the last eight quarters were:

	Q2 2021	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019
SaaS	1,446,221	1,539,825	1,627,421	1,652,001	1,305,049	2,738,654	2,711,228	2,649,345
Hardware	1,404,193	831,704	1,490,709	137,137	450,841	227,684	657,577	1,864,523
Licensing	7,924	182,181	48,068	86,033	1,233,096	2,263,677	772,466	589,546
Technical Services	67,784	137,565	212,988	43,239	71,171	65,217	140,341	94,032
Total	2,926,122	2,691,275	3,379,186	1,918,410	3,060,157	5,295,232	4,281,612	5,197,446

	Q2 2021		Q2 2020		YTD 2021		YTD 2020	
	\$	%	\$	%	\$	%	\$	%
United States & Mexico	755,009	25.8	1,608,576	52.6	1,821,097	32.4	4,864,858	58.2
Asia	432,638	14.8	119,331	3.9	545,609	9.7	781,791	9.4
China	429,471	14.7	615,503	20.1	670,449	11.9	937,349	11.2
Middle East	363,217	12.4	179,069	5.9	549,200	9.8	494,211	5.9
Canada	596,444	20.4	284,390	9.3	1,352,204	24.1	564,912	6.8
Australia	67,092	2.3	88,940	2.9	141,313	2.5	257,653	3.1
Africa	108,703	3.7	95,007	3.1	239,155	4.3	258,821	3.1
Europe	153,857	5.3	35,066	1.1	255,560	4.5	83,027	1.0
South/Central America	19,691	0.7	34,275	1.1	42,810	0.8	112,767	1.3
Total	2,926,122	100.0	3,060,157	100.0	5,617,397	100	8,355,389	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 Q2 2021 was 47.6% compared to 32.5% in Q2 2020. The decrease in gross margin was due to differences in the mix of revenue sources in 2021 versus 2020. Gross margin will fluctuate quarter over quarter depending on the mix of revenue categories.

Gross margin for the last eight quarters was:

	Q2 2021	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q4 2019	Q3 2019	Q2 2019
Gross Margin %	52.4	56.5	56.0	69.2	67.5	75.0	62.7	48.5
Cost of Sales	47.6	43.5	44.0	30.8	32.5	25.0	37.3	51.5

Distribution Expenses (Recovery)

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

Major Category	Q2 2021	Q2 2020	Variance	YTD 2021	YTD 2020	Variance
	\$	\$	\$	\$	\$	\$
Salaries and benefits	804,852	1,165,267	(360,415)	1,764,433	2,641,564	(877,131)
Share based compensation	12,567	843	11,724	20,474	11,228	9,246
Contract labour	117,788	82,809	34,979	380,568	328,961	51,607
Office	41,088	47,483	(6,395)	138,828	86,868	51,960
Travel	19,233	7,820	11,413	32,815	113,924	(81,109)
Equipment and maintenance	11,083	4,680	6,403	19,087	20,402	(1,315)
Depreciation	83,373	129,225	(45,852)	181,793	300,032	(118,239)
Marketing	3,045	-	3,045	14,244	4,177	10,067
Government grants	(197,349)	(605,603)	408,254	(339,612)	(605,603)	265,991
Bad debt reserve	344	331,433	(331,089)	(312,939)	371,045	(683,984)
Total	896,024	1,163,957	(267,933)	1,899,691	3,272,598	(1,372,907)

Distribution expenses decreased 23.0% from Q2 2020 to Q2 2021, due mainly to differences in people costs, including associated government payroll funding as well as a reduction in bad debt reserve.

Salaries and benefits decreased due to staffing reductions and the deployment of an increased proportion of staff into Research and Development activities.

Contract labour was higher in 2021 compared to 2020, reflecting the increased marketing support required for the Company's enhanced sales strategy.

Office expenses were higher YTD in 2021 compared to 2020, reflecting an increased investment in employee training, particularly in the Agile development methodology

Travel continues to remain low as companies move more to virtual meetings and conferences. This trend is expected to continue until there is a higher level of comfort around the pandemic.

Depreciation expense was lower in Q2 2021 than Q2 2020, as the move to a new headquarters in Calgary in mid-2020 accelerated depreciation on the former premises in the first half of 2020.

Government grants comprise funding received via Canadian governmental funding programs (CEWS and CERS) in support of businesses throughout the pandemic, relating to expenses in both the salaries and office categories. The grant totals in 2020 included a United States government grant as well as Canadian government funding. Differences in funding levels over time are reflective of variances in eligible expenses as well as changes in government funding made available under these programs in each respective period.

Bad debt reserve quarter over quarter variances reflects differences in bad debt estimates in Q2 2021 compared to Q2 2020.

Administration Expenses (Recovery)

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

Major Category	Q2 2021 \$	Q2 2020 \$	Variance \$	YTD 2021 \$	YTD 2020 \$	Variance \$
Salaries and benefits	282,805	374,799	(91,994)	595,496	965,209	(369,713)
Share based compensation	34,270	1,444	32,826	73,016	24,749	48,267
Contract labour	193,648	76,886	116,762	359,664	177,930	181,734
Office	152,107	109,793	42,314	292,096	242,524	49,572
Legal fees	23,394	31,923	(8,529)	53,496	44,766	8,730
Audit and accounting	51,032	68,948	(17,916)	98,669	112,051	(13,382)
Investor relations	44,246	78,512	(34,266)	59,128	108,606	(49,478)
Travel	3,970	9,435	(5,465)	5,225	62,213	(56,988)
Equipment and maintenance	37,471	50,243	(12,772)	167,189	107,105	60,084
Depreciation	26,167	41,198	(15,031)	55,475	90,800	(35,325)
Government grants	(108,467)	(157,568)	49,101	(249,607)	(157,568)	(92,039)
Other	466	876	(410)	627	7,192	(6,565)
Total	741,109	686,489	54,620	1,510,474	1,785,577	(275,103)

Administration expenses increased by 8.0% from Q2 2020 to Q2 2021.

Salaries and benefits have decreased due to reductions in staff in the second half of 2020, reflecting changes resulting from the Company's 2020 strategy pivot to increased emphasis on the development and sale of SaaS solutions. A portion of this decrease has been offset by increases in **Contract Labour**.

Office expenses have increased with a rise in insurance costs due to a combination of market conditions and customer contract requirements.

Investor relations decreases reflect the increased utilization of virtual tools in support of investor relations activities.

Travel continues to remain low as companies move more to virtual meetings and conferences. This trend is expected to continue until there is a higher level of comfort around the pandemic.

Government grants comprise 2021 funding received via Canadian governmental funding programs (CEWS and CERS) in support of businesses throughout the pandemic, relating to expenses in both the salaries and office categories. The grant totals in 2020 included a United States government grant as well as Canadian government funding. Differences in funding levels over time are reflective of variances in eligible expenses as well as changes in government funding made available under these programs in each respective period.

Research, Development and Certification Engineering Expenses (Recovery)

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

Major Category	Q2 2021 \$	Q2 2020 \$	Variance \$	YTD 2021 \$	YTD 2020 \$	Variance \$
Salaries and benefits	1,133,487	696,586	436,901	2,094,462	1,518,691	575,771
Share based compensation	6,037	1,852	4,185	10,537	4,100	6,437
Contract labour	93,098	102,401	(9,303)	106,798	167,269	(60,471)
Office	43,351	13,157	30,194	103,119	26,636	76,483
Travel	386	(3,409)	3,795	386	12,771	(12,385)
Equipment and maintenance	10,587	1,287	9,300	14,517	3,044	11,473
Components	1,625	205	1,420	1,705	10,939	(9,234)
Depreciation	62,766	29,250	33,516	105,436	76,245	29,191
Government grants	(303,000)	(400,511)	97,511	(469,387)	(450,659)	(18,728)
Other	504	-	504	904	106	798
Total	1,048,841	440,818	608,023	1,968,477	1,369,142	599,335

Research and Development expenses were 137.9% higher in Q2 2021 compared to the prior year's second quarter. The main contributor to the variances were increased people costs as the Company invests in developing its Actionable Intelligence suite of products, partially offset by government grants received. Research and development costs vary according to specific project requirements.

Salaries and benefits expense increased in 2021 to meet the requirements of new R&D-type initiatives, offset partially by decreases in **Contract labour**.

Office expenses were higher in the second quarter of 2021 compared to 2020 due partially to the mid-2020 move to a new corporate office in Calgary as well as increased investment in employee training, particularly in the Agile development methodology and various other development software and tools.

Government grants variances reflect differences in pandemic support received via Canadian government programs (CEWS and CERS), and in differing levels of expenses eligible for funding under the WINN program in each period. 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	Q2 2021 \$	Q2 2020 \$	Variance \$	YTD 2021 \$	YTD 2020 \$	Variance \$
Interest income	(2,824)	(17,064)	14,240	(6,503)	(39,244)	32,741
Net foreign exchange loss (gain)	23,594	26,158	(2,564)	52,926	(380,982)	433,908
Bank service charges	7,589	6,648	941	15,953	15,081	872
Other gain (loss)	-	-	-	(498,042)	-	(498,042)
Interest expense	29,847	38,642	(8,795)	60,681	63,583	(2,902)
Government loan accretion	116,136	111,283	4,853	225,387	220,935	4,452
Debenture interest and accretion	67,820	64,307	3,513	132,814	126,618	6,196
Net finance costs	242,162	229,974	12,188	(16,784)	5,991	(22,775)

Net foreign exchange loss (gain) will vary between periods due mainly to fluctuations in the value of the Canadian dollar in relation to the U.S. dollar. A weakening of the Canadian dollar late in Q2 2021 gave rise to foreign exchange gains in Q2 2021 similar to Q2 2020 on U.S. dollar denominated sales and purchases, in combination with fluctuations in U.S. denominated assets and liabilities. YTD variances in this category show the impact of the pandemic particularly in Q2 2020 on foreign exchange rates.

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

Net Income (Loss)

Major Category	Q2 2021 \$	Q2 2020 \$	Variance \$	YTD 2021 \$	YTD 2020 \$	Variance \$
Net income (loss)	(1,395,889)	(276,515)	(1,119,374)	(2,307,957)	409,547	(2,717,504)

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 Q2 2021.

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

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 and particularly through Q1 and into Q2 2021 some of that recovery was lost to the second and third waves of the pandemic impacting several parts of the world, and the impact of the latest variants. 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.

Installations at c-checks

Some of the Company's products including 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 was fully migrated to AWS in 2020, minimizing 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 commencing in Q4 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.

	For the three months ended June 30		For the six months ended June 30	
	2021	2020	2021	2020
Amounts included in:	\$	\$	\$	\$
Contract labour	49,150	-	79,150	-
Accounts payable	17,400	-	-	-

Government Grants

In the three months ended June 30, 2021, the Company recognized \$511,726 in government financial relief related to COVID-19 (Q2 2020: \$997,963). \$197,349, \$108,467 and \$205,910 have been applied to offset associated expenses in Distribution, Administration, and Research & Development expenses respectively.

The \$97,090 grant portion of the contributions received from WINN in the three months ended June 30, 2021 (Q2 2020: \$24,348) was offset against associated expenses in Research & Development expense.

In the six months ended June 30, 2021, the Company recognized \$889,603 in government financial relief related to COVID-19 (YTD 2020: \$997,963). \$339,612, \$249,607 and \$300,384 have been applied to offset associated expenses in Distribution, Administration, and Research & Development expenses respectively.

The \$169,003 grant portion of the contributions received from WINN in the six months ended June 30, 2021 (YTD 2020: \$74,496) was offset against associated expenses in Research & Development expense.

Subsequent Events

On July 21, 2021, the Company has closed its previously announced non-brokered private placement (the "Offering"), issuing 8,828,818 common shares ("Common Shares") at an issue price of \$0.75 per Common Share resulting in proceeds to the Company of CAD\$6,621,615. Directors, officers, and senior employees contributed approximately 10% of the Offering total. The Company used CAD\$1.8M from the Offering to repay in full the outstanding debentures due on July 24, 2021, and intends to use the remaining proceeds to fund FLYHT's growth initiatives including potential strategic acquisitions, and for general corporate purposes.

Auditors' Involvement

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

The auditors of FLYHT Aerospace Solutions Ltd. have not performed a review of the condensed consolidated interim financial statements for the three and six months ended June 30, 2021 and 2020.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION (UNAUDITED)

	June 30, 2021	December 31, 2020
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	3,079,255	5,127,963
Trade and other receivables	1,647,436	1,587,275
Contract assets	218,667	187,892
Deposits and prepaid expenses	346,187	544,052
Inventory	1,037,612	1,561,959
Total current assets	6,329,157	9,009,141
Non-current assets		
Property and equipment	2,805,521	3,035,392
Intangible assets	34,992	34,992
Inventory	2,012,297	1,656,710
Total non-current assets	4,852,810	4,727,094
Total assets	11,181,967	13,736,235
Liabilities		
Current liabilities		
Trade payables and accrued liabilities	1,918,856	2,128,941
Customer deposits	477,209	492,679
Loans and borrowings (note 4)	2,402,859	2,376,594
Lease liability	543,127	679,816
Tax liability	815	-
Total current liabilities	5,342,866	5,678,030
Non-current liabilities		
Loans and borrowings (note 4)	3,031,494	3,012,136
Lease liability	1,987,174	2,157,326
Provisions	23,705	24,103
Total non-current liabilities	5,042,373	5,193,565
Total liabilities	10,385,239	10,871,595
Equity		
Share capital	64,167,666	63,995,030
Convertible debenture – equity feature	173,524	173,524
Warrants	1,195,396	1,195,396
Contributed surplus	10,933,432	10,832,085
Cumulative translation adjustment	(84,938)	(51,000)
Deficit	(75,588,352)	(73,280,395)
Total equity	796,728	2,864,640
Total liabilities and equity	11,181,967	13,736,235

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

On behalf of the board


Director – Doug Marlin


Director – Paul Takalo

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

	For the three months ended June 30		For the six months ended June 30	
	2021 \$	2020 \$	2021 \$	2020 \$
Revenue (note 6)	2,926,122	3,060,157	5,617,397	8,355,389
Cost of sales	1,393,065	993,846	2,562,686	2,319,447
Gross profit	1,533,057	2,066,311	3,054,711	6,035,942
Distribution expenses (note 7)	896,024	1,163,957	1,899,691	3,272,598
Administration expenses (note 7)	741,109	686,489	1,510,474	1,785,577
Research, development and certification engineering expenses (note 7)	1,048,841	440,818	1,968,477	1,369,142
Loss from operating activities	(1,152,917)	(224,953)	(2,323,931)	(391,375)
Other Income	-	178,412	-	806,913
Finance income	(2,824)	(17,064)	(504,545)	(420,226)
Finance costs	244,986	247,038	487,761	426,217
Net finance income	242,162	229,974	(16,784)	5,991
Income (loss) before income tax	(1,395,079)	(276,515)	(2,307,147)	409,547
Income tax expense	(810)	-	(810)	-
Income (loss) for the period	(1,395,889)	(276,515)	(2,307,957)	409,547
Foreign currency translation adjustment	(22,475)	(48,216)	(33,938)	56,791
Comprehensive income (loss) for the period	(1,418,364)	(324,731)	(2,341,895)	466,338
Income (loss) per share				
Basic and diluted income (loss) per share	(0.05)	(0.01)	(0.08)	0.02

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

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended June 30, 2021 and 2020

	Share Capital \$	Convertible Debenture \$	Warrants \$	Contributed Surplus \$	Cumulative Translation Adjustment	Deficit \$	Total Equity (Deficit) \$
Balance at January 1, 2021	63,995,030	173,524	1,195,396	10,832,085	(51,000)	(73,280,395)	2,864,640
Loss for the period	-	-	-	-	(33,938)	(2,307,957)	(2,341,895)
Total comprehensive loss	-	-	-	-	(33,938)	(2,307,957)	(2,341,895)
Contributions by and distributions to owners							
Issue of common shares	165,000	-	-	-	-	-	165,000
Share-based payment transactions	-	-	-	104,027	-	-	104,027
Share options exercised	7,636	-	-	(2,680)	-	-	4,956
Total contributions by and distributions to owners	172,636	-	-	101,347	-	-	273,983
Balance at June 30, 2021	64,167,666	173,524	1,195,396	10,933,432	(84,938)	(75,588,352)	796,728
Balance at January 1, 2020							
	63,508,080	173,524	1,247,311	10,647,771	(32,176)	(69,966,026)	5,578,484
Income for the period	-	-	-	-	56,791	409,547	466,338
Total comprehensive income	-	-	-	-	56,791	409,547	466,338
Contributions by and distributions to owners							
Share-based payment transactions	-	-	-	40,076	-	-	40,076
Warrants exercised	15,165	-	(1,710)	-	-	-	13,455
Total contributions by and distributions to owners	15,165	-	(1,710)	40,076	-	-	53,531
Balance at June 30, 2020	63,523,245	173,524	1,245,601	10,687,847	24,615	(69,556,479)	6,098,353

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

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS (UNAUDITED)

For the six months ended June 30

	2021	2020
	\$	\$
Cash flows used in operating activities		
Income (loss) for the period	(2,307,957)	409,547
Depreciation – property and equipment	342,704	467,077
Disposal of PP&E	3,183	-
Convertible debenture accretion	132,814	126,618
Lease liability accretion	59,831	63,507
Grant portion of contributions from WINN	(169,003)	(74,496)
Gain on loan modification	(498,042)	(223,400)
Government loan accretion	225,388	220,935
Equity-settled share-based payment expenses	104,027	40,077
Change in inventories	168,760	(314,799)
Change in trade and other receivables	(115,228)	(326,823)
Change in contract assets	(30,774)	37,554
Change in prepayments	197,865	(282,509)
Change in trade and other payables	(228,524)	(540,461)
Change in customer deposits	(15,470)	583,135
Change in contract liabilities	-	(32,629)
Change in provisions	(393)	(17,127)
Unrealized foreign exchange loss (gain)	52,926	(157,584)
Other interest expense	849	-
Interest paid	(59,831)	-
Interest income	(6,503)	(39,244)
Interest received	2,233	10,625
Income tax expense (recovery)	810	-
Net cash used in operating activities	(2,140,335)	(49,997)
Cash flows used in investing activities		
Acquisitions of property and equipment	(124,309)	(86,971)
Net cash used in investing activities	(124,309)	(86,971)
Cash flows from financing activities		
Subsidy payment received	-	291,567
Less subsidy recognized	-	(806,913)
Issuance of common shares	165,000	-
Proceeds from exercise of share options	4,956	-
Warrant exercises	-	13,455
Payment of lease liabilities	(295,152)	(321,041)
Contributions from CARES (PPP)	-	254,486
Contributions from WINN	496,286	404,122
Contributions from BDC (HASCAP)	250,000	-
Repayment of borrowings	(391,820)	(117,000)
Net cash from financing activities	229,270	(281,324)
Net increase in cash and cash equivalents	(2,035,375)	(418,292)
Cash and cash equivalents, beginning	5,127,963	4,127,648
Effect of exchange rate fluctuations on cash held	(13,334)	(6,532)
Cash and cash equivalents, ending	3,079,255	3,702,824

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. Reporting entity

FLYHT Aerospace Solutions Ltd. (the “**Company**” or “**FLYHT**”) was founded in 1998 under the name AeroMechanical Services Ltd. FLYHT is a public company incorporated under the Canada Business Corporations Act, and is domiciled in Canada. The Company has been listed on the TSX Venture Exchange since March 2003, first as TSX.V: AMA and as TSX.V: FLY since 2012 and has been listed on the OTCQX marketplace since June 2014 as OTCQX: FLYLF. FLYHT is publicly traded as FLY in Canada on the TSX.V; and as FLYLF in the USA on the OTCQX. FLYHT is based in Calgary, Canada with an office in Littleton, Colorado and is an AS9100 Quality registered company. For more information visit www.flyht.com.

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

2. Basis of preparation

(a) Basis of accounting

These unaudited condensed consolidated interim financial statements have been prepared in accordance with IAS 34 – Interim Financial Reporting. They do not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Company as at and for the year ended December 31, 2020. These condensed consolidated interim financial statements were approved by the Board of Directors on August 4, 2021.

(b) Basis of measurement

The unaudited condensed consolidated interim financial statements have been prepared on a historical cost basis, except for financial instruments at fair value through profit or loss, which are measured at fair value in the statement of financial position.

(c) Functional and presentation currency

These unaudited condensed consolidated interim financial statements are presented in Canadian dollars, which is the Company’s functional currency. The functional currency of the Company’s USA subsidiary is US dollars.

(d) Going concern

The condensed consolidated interim financial statements have been prepared on the basis that the Company will continue to realize its assets and meet its obligations in the ordinary course of business. 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. The Company’s results showed losses from operating activities in the quarters ending Q2 2021 and Q2 2020. At June 30, 2021, the Company had positive working capital of \$986 thousand compared to positive \$3.3 million as of December 31, 2020, a decrease of \$2.3 million. The Company ended Q2 2021 with balances of \$3.1 million in cash and cash equivalents, an undrawn credit facility of \$1.5 million, and \$1.4 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 customers and prospects, which are expected to result in additional contracts for delivery of hardware units and related services. Until achieving positive earnings and cash flows, it is the Company’s intention to continue to fund operations through revenue and its resulting cash flow as well as continue to manage outgoing cash flows. The Company may have to scale back operations to create positive cash from existing revenue and/or raise the necessary financing in the capital markets through debt and/or equity.

The negative impact to the commercial air industry 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 and particularly through Q1 and into Q2 2021 some of that recovery was lost to the second and third waves of the pandemic impacting several parts of the world, and the impact of the latest variants. 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. These condensed consolidated interim financial statements do not reflect adjustments that would otherwise be necessary if the going concern assumption was not valid, such as revaluation to liquidation values and reclassification of statement of financial position items.

3. Significant accounting policies

The accounting policies set out in note 3 of the Company's December 31, 2020 consolidated financial statements have been applied consistently to all periods presented in these unaudited condensed consolidated interim financial statements, unless otherwise indicated. These accounting policies have also been applied consistently by the Company's subsidiaries.

4. Measurement of fair values

A number of the Company's accounting policies and disclosures require the measurement of fair value, for both financial and non-financial assets and liabilities. When measuring the fair value of an asset or a liability, the Company uses observable market data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

Fair values have been determined for measurement and/or disclosure purposes based on the following methods, all of which are determined using a number of observable inputs other than quoted prices in active markets (Level 2).

- (a) Cash and cash equivalents, trade and other receivables, trade payables and accrued liabilities: carrying value approximates fair value, due to the short-term nature of the instruments.
- (b) Loans and borrowings: for measurement purposes, fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the inception of the loan. In respect of the liability component of convertible debentures, the market rate of interest is determined by reference to similar liabilities that do not have a conversion feature.

5. Loans and Borrowings

Government loans

In November 2016, the Company signed a contribution agreement with Western Economic Diversification Canada for a 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 adjusted the payment dates due to COVID-19, so that there were no payments scheduled from April – December, 2020 and the final payment date was pushed back to September 2025. Repayments in Q2 2021 totaled \$117,000 (Q2 2020: nil). The carrying value of the amount owing under this program at June 30, 2021 is \$1,629,535 (June 30, 2020: \$1,833,722).

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 this 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, repayable over five years commencing October 1, 2021. Amendments in 2021 extended the timeframe for eligible project cost submission to September 30, 2023 and adjusted the repayment start date to October 1, 2023. This modification resulted in a gain on the November 2018 WINN loan of \$498,042. At June 30, 2021, the Company had received contributions totaling \$1,284,548 (December 31, 2020: \$788,262). The carrying value of the amount owing under this program at June 30, 2021 is \$564,349 (June 30, 2020: \$484,672).

Both WINN loans are interest free.

Under SADI, the Company received a loan of \$1,967,507 which 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. No repayment was made in the second quarter of 2021 (Q2 2020: nil). The carrying value of the amount owing under this program at June 30, 2021 is \$1,201,595 (June 30, 2020: \$1,458,664).

In May 2021, the Company received funding of \$250,000 through the BDC's [HASCAP](#) loan program, designed to support small and medium sized businesses affected by COVID-19. This loan carries interest of 4% per annum over a 10-year term commencing May 10, 2021. Payments in the first year following funding are comprised of interest only, with the principal and accrued interest payable over the remaining 9 years. The carrying value of the amount owing under this program at June 30, 2021 is \$250,000 (June 30, 2020: nil).

A summary of the carrying value of the government loans as at June 30, 2021 and changes during the year and comparative year are presented below.

	2021	2020
	Total	Total
Balance January 1	3,732,670	3,343,497
Contributions received	746,286	404,122
Grant portion	(169,003)	(74,496)
Interest accretion	225,388	220,935
Gain on loan modification	(498,042)	-
Repayment	(391,820)	(117,000)
Balance June 30	3,645,479	3,777,058
Less current portion	613,985	472,681
Non-current portion	3,031,494	3,304,377

Convertible Debenture

The Company issued debentures with a face value of \$2,000,000 on July 24, 2018. They will mature on July 24, 2021 (if not otherwise converted) and bear interest at a rate of 8% per annum, which shall be accrued and paid annually in arrears. The Debentures are 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. During 2020, no convertible debentures were converted into common shares.

Purchasers of the Debentures also received 769,200 warrants (Warrants) (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 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.

	2021	2020
	\$	\$
Balance January 1	1,656,060	1,535,438
Accrued interest	132,814	126,618
Carrying amount of liability at June 30	1,788,874	1,662,056
Less current portion	1,788,874	133,949
Non-current portion	-	1,528,107

5. Earnings per share

The calculation of basic and diluted earnings per share for the three months ended June 30, 2021 was based on a weighted average number of common shares outstanding of 27,448,877 (basic and diluted) (June 30, 2020: 26,663,861 (basic and diluted)). Both calculations of diluted earnings per share did not include outstanding stock options, warrants, nor convertible debentures because they would be anti-dilutive.

The calculation of basic and diluted earnings per share for the six months ended June 30, 2021 was based on a weighted average number of common shares outstanding of 27,363,481 (basic & diluted) (June 30, 2020: 26,662,304 (basic) and 28,348,127 (diluted)). The 2021 calculation of diluted earnings per share did not include outstanding stock options, warrants, nor convertible debentures because they would be anti-dilutive.

6. Disaggregation of revenue

The Company has one operating segment. The following revenue is based on the geographical location of customers. All non-current assets reside in Canada, with the exception of property and equipment valued at \$79,249, a leased building valued at \$214,485, and non-current inventory valued at \$1,085,159 located at FLYHT's offices in Littleton, CO.

	For the three months ended June 30		For the six months ended June 30	
	2021	2020	2021	2020
	\$	\$	\$	\$
United States & Mexico	755,009	1,608,576	1,821,097	4,864,858
Asia	432,638	119,331	545,609	781,791
China	429,471	615,503	670,449	937,349
Middle East	363,217	179,069	549,200	494,211
Canada	596,444	284,390	1,352,204	564,912
Australia	67,092	88,940	141,313	257,653
Africa	108,703	95,007	239,155	258,821
Europe	153,857	35,066	255,560	83,027
South/Central America	19,691	34,275	42,810	112,767
Total	2,926,122	3,060,157	5,617,397	8,355,389

The following shows revenue per major product and service categories.

	For the three months ended June 30		For the six months ended June 30	
	2021	2020	2021	2020
	\$	\$	\$	\$
SaaS	1,446,221	1,305,049	2,986,045	4,043,704
Hardware	1,404,193	450,841	2,235,897	678,525
Licensing	7,924	1,233,096	190,105	3,496,773
Technical Services	67,784	71,171	205,350	136,388
Total	2,926,122	3,060,157	5,617,397	8,355,389

SaaS is the recurring revenue from the Company's products that allow customers to utilize and analyze data they receive from units, use of functions such as the satellite phone and the sale of weather data collected by units. These usage fees are recognized as the service is provided based on actual customer usage each month.

Hardware includes the income from hardware sales and related parts required to install the unit, spare units, spare installation parts, and Underfloor Stowage Units.

Licensing includes sales of modems with a related manufacturing license fee and arrangements for exclusive access to weather data sets.

Technical Services includes services offered by the Company, including repairs and other expertise. The Company has not disclosed the transaction price allocated to remaining performance obligations for SaaS and Technical Services, as revenue for these performance obligations is recognized using the practical expedient to recognize revenue at the amount to which the Company has a right to invoice.

The undelivered amount of revenue related to contracted yet undelivered hardware and licenses for which a purchase order has been received is \$618,756 CAD.

Major customers

Revenues from the three largest customers represent approximately 35.2% and 35.2% of the Company's total revenues for the three and six months ended June 30, 2021 (2020: 58.5% and 59.0%).

7. Government grants

In the three months ended June 30, 2021, the Company recognized \$511,726 in government financial relief related to COVID-19 (Q2 2020: \$997,963). \$197,349, \$108,467 and \$205,910 have been applied to offset associated expenses in Distribution, Administration, and Research & Development expenses respectively.

The \$97,090 grant portion of the contributions received from WINN in the three months ended June 30, 2021 (Q2 2020: \$24,348) was offset against associated expenses in Research & Development expense.

In the six months ended June 30, 2021, the Company recognized \$889,603 in government financial relief related to COVID-19 (YTD 2020: \$997,963). \$339,612, \$249,607 and \$300,384 have been applied to offset associated expenses in Distribution, Administration, and Research & Development expenses respectively.

The \$169,003 grant portion of the contributions received from WINN in the six months ended June 30, 2021 (YTD 2020: \$74,496) was offset against associated expenses in Research & Development expense.

8. Related parties

A company related to an officer of FLYHT provided marketing services commencing in Q4 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.

	For the three months ended June 30		For the six months ended June 30	
	2021	2020	2021	2020
Amounts included in:	\$	\$	\$	\$
Contract labour	49,150	-	79,150	-
Accounts payable	17,400	-	-	-

9. Subsequent Events

On July 21, 2021, the Company has closed its previously announced non-brokered private placement (the "Offering"), issuing 8,828,818 common shares ("Common Shares") at an issue price of \$0.75 per Common Share resulting in proceeds to the Company of CAD\$6,621,615. Directors, officers, and senior employees contributed approximately 10% of the Offering total. The Company used CAD\$1.8M from the Offering to repay in full the outstanding debentures due on July 24, 2021, and intends to use the remaining proceeds to fund FLYHT's growth initiatives including potential strategic acquisitions, and for general corporate purposes.

CORPORATE INFORMATION

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Share Listing

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

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President, General Aero Company
Director
Partner, Nanaimo Law
Director

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