

# SECOND QUARTER 2022

FLYHT AEROSPACE SOLUTIONS LTD.



Maintenance data management

**Actionable intelligence** Industry partnerships

CO2 reductions

Waste reduction

**Operational excellence** Financial improvement

Weather soundings

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## COMMONLY USED FINANCIAL TERMS AND AVIATION ACRONYMS

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

# LETTER TO SHAREHOLDERS

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We are pleased to present our Q2 2022 results, which show that our business is returning to some sort of normal. Revenue was strong at \$4.9 million, and likely would have been even stronger without hardware shipment delays resulting from short-term supply chain issues at quarter end. Shipments of modems and associated licenses in the first week of Q3 which were originally scheduled for Q2 amounted to another \$900k in licensing revenue and likely would have pushed revenue closer to record territory. This does though mean that we have a great start on Q3 revenues.

This is also the first quarter that includes full CrossConsense financial results. We are seeing the integration of the teams, products and customers going smoothly with strong synergies being uncovered. We are engaged in trials with existing customers and we are looking for more opportunities in the fall of 2022 as our customers struggle their way out of this pandemic induced chaos that is air travel.

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The AFIRS Edge has become FLYHT's biggest opportunity in 20 years. We have received the first manufactured AFIRS Edge units from our supplier and they are currently undergoing the final testing and certification steps. Development on the A320 and B737 Supplemental Type Certificates (STC's) is well underway. The most exciting and rewarding time in the two years since my return was in late June when the team of hardware, software, ground software, product owners and sales staff spent three days huddled in the office with a manufactured Edge 1.0, an MBS setup, iPad, PC and power supply. The team trained staff on the functions of the end-to-end products for WQAR and Remote Avionics Data loading from source, to Edge, to ground and certified for use. We then packaged up the units and delivered them to Japan and Indonesia for demonstrations to 15 airlines. It is a strong testament to our team that in two short years, we have built hardware, software, infrastructure and partnerships with third parties that we feel will solve the problems faced by the demise of 2G and 3G networks with robust multi-function 3G, 4G and 5G compatible solutions for an estimated 15,000 aircraft around the world. We are hopeful that developments this coming quarter will give investors confidence that the two years of COVID disruption have allowed our team the ability to create a fantastic and timely solution that the industry will readily adapt.

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The easing of travel and work restrictions is clearly benefiting our business. It's also allowing us to get back in front of customers and investors. The first events we attended in March were exciting as we announced the Edge and MBS partnership. The June trip to the far East was very rewarding and provided validation that we have built a solution the industry needs. We are working with staff to get our operations back in the office while following protocols to make sure we are actively avoiding the COVID situation.

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We continue to aggressively market our story through both virtual and in-person investor conferences which we will continue until the change and opportunity is recognized by all.

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We believe we are on track to have a very solid year in 2022.

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 10, 2022 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, 2021 and 2020 and the accompanying notes. Additional information with respect to FLYHT can be found on SEDAR at [www.sedar.com](http://www.sedar.com). The Company has prepared its June 30, 2022 condensed consolidated interim financial statements and the notes thereto in accordance with International Financial Reporting Standards (“**IFRS**”), 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. Working capital can be used to assess a company’s liquidity, operational efficiency, and short-term financial health. EBITDA can be used to analyze and compare profitability among companies and industries, as it eliminates the effects of financing and capital expenditures. 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 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., German 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, global 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, and delivers industry leading solutions to improve aviation safety, efficiency, and profitability. This unique capability is driven by a suite of patented aircraft certified hardware products. These include AFIRS™, an aircraft satcom/interface device, which enables cockpit voice communications, real-time aircraft state analysis, and the transmission of aircraft data while in flight. The AFIRS Edge is a state-of-the-art 5G Wireless Quick Access Recorder (WQAR), Aircraft Interface Device (AID), and Aircraft Condition and Monitoring System (ACMS). The Edge can be interfaced with FLYHT's TAMDAR probe or the FLYHT-WVSS-II relative humidity sensor to deliver airborne weather and humidity data in real-time. FLYHT complements the AFIRS airborne systems with enterprise applications that help airlines improve operational efficiency and situational awareness including UpTime, FleetWatch, FuelSense and ClearPort services.

CrossConsense, FLYHT's wholly owned subsidiary, offers highly skilled services to the commercial aviation industry and provides preventative maintenance solutions. These include Aircraft Fleet View, a native application that gives a real-time view of airline fleet status; AviationDW, a managed data warehouse for enhanced business intelligence; and ACSIS, a visualization and predictive maintenance alerting tool.

FLYHT is headquartered in Calgary, Canada, and is an AS9100 Quality registered company. CrossConsense, located in Frankfurt, Germany, is an ISO9001 certified operation. For more information visit [www.flyht.com](http://www.flyht.com).

## 1. Actionable Intelligence Solutions

Actionable Intelligence solutions maximize customers' operational efficiency and safety with reliable, easy to use, flexible, and cost-effective solutions. This industry differentiator provides not only economic value but also opportunities for customers and FLYHT to realize environmental, social, and corporate governance goals. FLYHT aims to leave no data stranded and no related opportunity to take corrective or opportunistic action left unrealized.

Cloud-based enterprise servers complement AFIRS data with external airline, airport and other industry data sources. These external sources have many components aiding in aircraft operations, maintenance, and ground operations as well as flight planning and scheduling. The combination of this wide set of data sources allows for the creation of a data lake to which machine learning can be applied, allowing FLYHT to provide customers with Actionable Intelligence solutions.

FLYHT continues to add to the suite of Actionable Intelligence solutions. The service offering provides a recurring, SaaS (Software as a Service) revenue stream. While every Actionable Intelligence solution will thrive with real-time inputs from an AFIRS unit, the broader approach to incorporate third-party inputs allows FLYHT's products to be leveraged in any airline environment.

### WQAR

As 2G/3G/LTE cellular networks around the world are decommissioned, FLYHT's AFIRS Edge provides a seamless transition to WQAR (Wireless Quick Access Recorder) file transmission over the new 5G networks. 5G networks allow for a significant increase in data volumes transmitted from an aircraft, enabling additional SaaS and Actionable Intelligence solutions to be implemented. As these become available FLYHT can provide immediate access for airlines to maximize benefits of the new networks, setting up airlines for long term success. QAR data forms one of the foundations for the Actionable Intelligence solutions that FLYHT provides.

SaaS opportunities to enhance airline operational control and decrease airline costs are derived from QAR recordings and wireless distribution functions, by expanding data harvesting that is fully under airline control.

### Aircraft Interface Device

AFIRS Edge provides AID functions to supply an aircraft's own data to the flight deck for EFB applications. By conforming to the ARINC 834 standard, own-ship information is transmitted from the AFIRS Edge to Actionable Intelligence applications running on the flight deck. Whether airlines run their own EFB applications or run third party programs they will always have access to the rich set of aircraft data provided by the AFIRS Edge.

The AFIRS Edge AID functions are easily and remotely configurable. As airlines update or add new EFB applications the need for new aircraft data points will arise. By remotely updating the AID service of the Edge, new Actionable Intelligence solutions can be enabled on the flight deck without personnel having to individually update each aircraft in a fleet.

## ***FleetWatch***

Situational awareness remains a primary objective of any Operations Control Centre (OCC) and frontline staff. FLYHT's FleetWatch provides a configurable fleet wide situational awareness platform in a form factor most relevant to the role of the receiver. In addition to taking direct inputs from any AFIRS unit, FleetWatch can incorporate third-party inputs as part of its situational display.

Unlike traditional Aircraft Situational Displays, FleetWatch incorporates the concept of Actionable Intelligence into its design. The primary user interface is not only a source of real-time aircraft position and state but is also a tool for OCCs to receive Actionable Intelligence information. Information relevant to the efficient operation of an airline is directly displayed in FleetWatch.

Airline operations that need immediate attention or that require direct action from staff can be displayed on the FleetWatch main page. By providing this real-time display with meaningful information, airline staff are immediately notified when situations requiring their attention are identified. From diagnosing a fault while airborne to instructing ground crews of unnecessary APU operation, FleetWatch is a primary conveyor of Actionable Intelligence to our airline customers.

## ***FuelSense***

Fuel and emissions are a significant concern for all airlines. The FuelSense application provides insight to an airline's management and usage of fuel. By providing targeted guidance through impactful decision support, airline operational change can be achieved. FuelSense incorporates the concept of Actionable Intelligence to provide meaningful information to an operator. Fuel optimization includes minimizing of APU usage and optimizing dispatch, pilot and ground personnel actions.

## ***ClearPort***

Better asset utilization has a direct impact on airlines long-term sustainability. ClearPort provides Actionable Intelligence to support optimizing ground operations. By providing a clear view into the status of an aircraft in a turn, ClearPort allows an airline to move beyond reporting of operational delays into a state where Actionable Intelligence can be used to manage and avoid situations that affect operations. ClearPort draws attention to opportunities for personnel to better manage aircraft turns and immediately mitigate risks of late departures.

## **2. Airborne Hardware**

### ***AFIRS Edge™***

The Edge is FLYHT's latest addition to the AFIRS hardware family and is delivered as an extensible multifunction avionics platform. The Edge's modular functionality allows different configurations and features to be implemented as an airline needs them. Communication options include 5G/4G/3G cellular capabilities, a modular Iridium Certus satcom, and the ability to incorporate with existing onboard broadband solutions.

AFIRS Edge turn-key applications include AID functionality (ARINC 834 compliant), a multi-channel wireless Quick Access Recorder, bulk aircraft system data acquisition and recording, and AFIRS analytics through our enhanced, customized ACMS.

The WQAR function of the AFIRS Edge provides an industry-first move towards 5G transmission of aircraft recorded FDR data. By using the most efficient method of data transfer off an aircraft, data volumes can be increased while cost of transmission decreases. The fully compliant 4G/3G features provide compatibility while existing ground cellular infrastructures are updated. With the future of 5G expected to last beyond 2040, the WQAR functions of the AFIRS Edge provide an opportunity for airlines to upgrade their WQAR capabilities in one move that will serve them for years.

The AFIRS Edge provides a configurable airborne platform for FLYHT to implement current and future Actionable Intelligence solutions for FLYHT's customers and the industry.

### ***AFIRS™***

The Automated Flight Information Reporting System (AFIRS) is a family of avionics installed on aircraft that captures and monitors hundreds of essential functions from the aircraft including data recorded by the FDR (the "Black Box"). AFIRS transmits this information in real-time through various technologies to FLYHT's servers, which use that data to power solutions such as displaying real-time fleet visualizations and providing fleet wide Actionable Intelligence.

In addition to data monitoring and flight tracking functions, the AFIRS family of products provides voice and text messaging capabilities in both safety services level security and 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 relative humidity data. FLYHT's real-time, global coverage is enabled through the Iridium satellite network, providing service to customers anywhere on the planet.

FLYHT has received regulatory certification for installation of AFIRS on most commercial aircraft types and models (see systems approvals section). The AFIRS 228S features cater to the evolving needs of airlines by providing a customizable and flexible product. FLYHT's in-house aircraft certification group allows for easy addition of new data sources to the reporting capabilities of AFIRS.

FLYHT's AFIRS 228S conforms to the Canadian Technical Standard Order (CAN-TSO) Design Approval, CAN-TSO-C159b. 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 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.

FLYHT's systems and solutions 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-WVSS-II (Water Vapour Sensing System)***

The FLYHT-WVSS-II is an externally mounted aircraft sensor that detects and reports water vapour as relative humidity. This relative humidity value is incorporated with other aircraft weather information to generate Aircraft Based Observations (ABOs) which can be fed to different weather models around the world.

ABOs are grouped together during the ascent and descent phases of a flight to generate soundings. By adding relative humidity to the standard AMDAR payload, FLYHT significantly increases the value of our weather data. A FLYHT-WVSS-II can be paired with an AFIRS 228 unit, or with an AFIRS Edge for transmission of weather sounding data in real-time.

As with AMDAR and TAMDAR soundings, FLYHT-WVSS-II enhanced ABOs are provided to government and private weather modeling systems around the world. Industry standardized and accepted formats for data transmission of weather data to these models is maintained.

### ***TAMDAR***

FLYHT's Tropospheric Airborne Meteorological Data Reporting (TAMDAR) system is a unique sensor device installed on aircraft that captures temperature, atmospheric 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-19 lockdowns) and continuous observations including all the metrics of radiosonde observations plus icing and turbulence.

Like the data traditionally gathered by weather balloons, 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 weather offices. The relative humidity data, gathered throughout an aircraft's flight, makes these weather soundings particularly valuable to meteorologists.

## **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 products provide both power and connectivity to the devices used by pilots to create a secure, reliable platform for Electronic Flight Bags (EFBs).

The AFIRS voice solution uses the Iridium satellite constellation with global coverage and an onboard satellite phone to provide a rapid and reliable private satcom communication channel to the flight deck. When operating remote or oceanic flights, this allows for communication between dispatch and crew with no delay. The voice capability is particularly valuable when operating in remote regions with little to no VHF/HF coverage.

FLYHT's communication solutions include long range satcom, as well as Air Traffic Safety (ATS) Services voice, providing a higher performance alternative to that of legacy High Frequency (HF) communications. AFIRS 228S TSO complies with the FAA Advisory Circular AC 20-150B as one of the two required Long Range Communication Systems (LRCS). The AFIRS 228S TSO is a TSO-C159b certified Iridium satcom solution providing the aircraft with reliable FANS 1/A, ADS-C, CPDLC and ACARS over Iridium messaging capabilities.

The AFIRS Edge includes 5G/4G/3G cellular capabilities, a modular Iridium Certus satcom, and the ability to incorporate with existing onboard broadband solutions.



## 4. MRO Services

CrossConsense, FLYHT's wholly owned subsidiary in Germany, assists the aviation industry in using and applying SWISS Aviation's comprehensive AMOS software solution for maintenance, engineering and logistics needs, including required hardware, database and 1st and 2nd level application support.

In addition to maintenance system software solutions, CrossConsense provides data migration services for customers transitioning from other MRO platforms to AMOS, business intelligence and customization services, and consulting services. Through expert understanding of MRO products, and an understanding of airline maintenance operations, CrossConsense develops Actionable Intelligence solutions in the MRO market.

## SYSTEM APPROVALS

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

FLYHT has STC approvals from TCCA (Canada), the 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's expertise in airworthiness certification allowed the Company to join a select group of Canadian companies who are approved by TCCA as a DAO. Very few organizations achieve DAO status because of the time and expertise required to meet TCCA standards. FLYHT's DAO status, along with the delegations it has received, allows the Company to obtain and revise its own STCs and TSOs with minimal TCCA oversight. This lessens application wait times and reducing costs and reliance on contractors.

As a component of its DAO status, FLYHT employs the services of delegated engineers, allowing for the approval of changes to the structural or systems and electrical design aspects of an airworthiness certification. If an issue is encountered during the STC or TSO process, the delegate has the authority to approve necessary changes and continue the process without the involvement of an external party.

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

The process to receive an STC can take considerable 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 new national regulator, FLYHT submits an application to the new regulator such as the FAA or EASA with the STC data package previously approved by TCCA. The new 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 to obtain TCCA approval, with an additional three to eight months if an STC is required from an additional regulator.

### STC Chart: AFIRS 220 and 228

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	ATR72-100, -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		A							Boeing B777-200, -300
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							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 ERJ 190-100
		A								Embraer Legacy 600 and ERJ-135, -145

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). FLYHT has also received an AFIRS 228 STC validation from CAAM (Civil Aviation Authority of Malaysia) for the Boeing 767-200, -300.

### STC Chart: TAMDAR

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
I					Airbus A319, A320, A321

\*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. Many commercial airlines and aircraft leasing organizations continue to face extreme stress due to the ongoing COVID-19 pandemic, Ukraine/Russia situation and increase in travel in some areas where infrastructure is slowly catching up with the increase in summer travel. A few key points for mid-2022 are as follows<sup>1</sup>.

- International revenue passenger kilometers (RPKs) continued to drive the global industry's recovery in May while the global domestic market trended sideways.
- Several major international route areas overperformed 2019 levels while many others likely reached pre-pandemic RPK levels in June.
- Asia Pacific airlines registered substantial international growth four months in a row, reaching a year-on-year (YoY) recovery rate of 453.3% in May, a great increase from 103.5% in January 2022. This positive trend is expected to continue as the region reopens gradually.
- The global industry's recovery accelerated and global international RPKs are now at 64.1% of pre-crisis levels. Global domestic RPKs reached 76.7% of the 2019 level in May. Compared to April 2022, global RPKs grew 10.7% month-on-month (MoM).
- The rebound continues despite inflation, high jet fuel prices and low consumer confidence. International bookings briefly exceeded domestic bookings in May, confirming that a high willingness to travel abroad persists.

## *The Aviation Industry*

International Air Transport Association's (IATA) industry results, measured in 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.

Despite the ongoing war in Ukraine and lingering zero-Covid policies in China PR, the global airline industry pushes for recovery. In May 2022, industry-wide RPKs grew by 83.1% (YoY). Air passenger volumes are now 31.3% below pre-pandemic 2019 levels, which represents a 6% increase from April of this year. Seasonally adjusted data suggest an accelerating industry-wide recovery with a 10.7% MoM increase<sup>1</sup>.

Regarding air cargo business, industry-wide CTKs were down 8.3% in May YoY. This is a slight improvement on the April decline of 9.1% YoY, signaling a modest easing of supply chain and capacity issues that are impacting air cargo operations. The recent declines in seasonally adjusted (SA) air cargo volumes paused in May, with a 0.3% expansion compared with April MoM. This is a welcome respite after two consecutive months of falling air cargo volumes, which lead to a 7% contraction between February and April 2022<sup>2</sup>.

Defense & Security Monitor posted on July 18, 2022 that Boeing and Airbus delivered 51 and 58 commercial jets in June 2022, compared to 45 and 77 deliveries, respectively, in the same month last year. Year to date, Boeing and Airbus have delivered 216 and 295 aircraft, compared to 156 and 297, respectively, in the first half of 2021. So far this year, Boeing is 60 deliveries ahead and Airbus is two deliveries behind last year's totals. June was a strong month for Boeing, and one would have to go all the way back to March 2019 to find a month with higher shipments<sup>3</sup>.

<sup>1</sup> <https://www.iata.org/en/iata-repository/publications/economic-reports/air-passenger-monthly-analysis--may-2022/>

<sup>2</sup> <https://www.iata.org/en/iata-repository/publications/economic-reports/air-freight-monthly-analysis--may-2022/>

<sup>3</sup> <https://dsm.forecastinternational.com/wordpress/2022/07/18/airbus-and-boeing-report-june-2022-commercial-aircraft-orders-and-deliveries/>

## *FLYHT's Market*

Aircraft and the crews on-board represent extremely high value assets for air operators, and despite their value these assets have a legacy of being the most remote and disconnected assets of almost any business. Compared to most other industrial or transport businesses and despite advances in Industrial Internet of Things (IIoT) technologies, airline operational connectivity and integration between the aircraft assets and ground-based systems and processes are still very limited and largely based on old technologies. Aircraft are flying assets containing many high value components and mobile workers that collectively generate vast amounts of operational data. Due to the legacy and inflexible technologies deployed on many aircraft, including on recent models, it has been and remains problematic for airlines to make the best use of data from their airplane assets in pursuit of maintenance improvements and operational excellence.

On the ground, FLYHT's Actionable Intelligence provides airlines with a sophisticated toolset allowing the Company an opportunity to further expand into artificial intelligence opportunities. Actionable Intelligence provides insight into 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.

On the aircraft, FLYHT provides 4G and 5G airport surface data communications, Iridium Certus real-time IP communications, global voice and data flight deck communications, while still supporting and interfacing with other data channels on the aircraft including the legacy technologies still in use. This means FLYHT customers can move larger amounts of sensor data off the aircraft while in the air, in real-time or on the ground post flight, and value can be more quickly realized from the data on board. This data value is achieved via the AFIRS Edge on-wing computing platform, or on the ground in the cloud via the JetBridge platform, feeding Actionable Intelligence

applications, as well as making it easy for data to be consumed by other value generating applications and services used by the airline on the ground or onboard Electronic Flight Bags.

FLYHT's primary market are commercial passenger and air freight transport operators who seek safer, more efficient and more reliable operations through making better use of available data, connectivity and information technologies. While competitors offer various point solutions to address one or some of the challenges airlines face, FLYHT offers a unique and wide-ranging combination of avionics hardware, services and SaaS solutions that leverage the latest technologies available. FLYHT's target airline market size is increasing; traditionally FLYHT has focused on smaller airlines, however due to the new AFIRS Edge and JetBridge platform technologies the target market is now expanding to airlines of all sizes including Tier 1 and 2 major operators.

An expanding secondary market for FLYHT is the world's meteorological agencies and weather services providers. FLYHT enables its weather data customers to work with airlines to implement FLYHT's weather systems and solutions. FLYHT is the only provider that enables the full suite of Aircraft Based Observations, uniquely including water vapour humidity data that enables enhanced weather forecasting capabilities. The resulting predictive weather intelligence can also help airlines avoid disruptions, recover quicker following better predicted weather disruptions and fly more efficiently by updating flight plans to avert weather systems that may impact fuel consumption and flight comfort, as well as costly re-routing for airport closures or planning for ground support and gate shutdowns due to severe weather.

### *Foreign Currency*

The Canadian dollar strengthened relative to the U.S. dollar and the euro throughout most of Q2 2022 and the Company experienced a resulting negative impact to net income compared to Q2 2021. As a result of these currency movements, the Company's revenues, of which a majority are denominated in U.S. dollars with the proportion contributed by CrossConsense denominated in euros, were lower than they would have been had the foreign exchange rates not changed throughout Q2 2022. It is generally the standard of the aviation industry to conduct business in U.S. dollars. While a majority of the Company's operating and overhead costs are denominated in Canadian dollars, a significant portion of costs are U.S. dollar and euro denominated, and therefore a partial natural hedge exists against fluctuations of the Canadian dollar.

## **Environmental, Social and Governance**

Sustainability has been integral to FLYHT's operations for many years. FLYHT is also leading a review of ESG practices company-wide to set goals for future improvements, establish metrics and a plan for program adoption.

Early initiatives had FLYHT playing a key role in the effort to achieve a paperless cockpit, reducing waste and improving operational efficiency. FLYHT's data capabilities can also support airlines in meeting their environmentally related regulatory filing requirements, such as CORSIA and EU ETS.

More recently, FLYHT has been focused on helping our customers improve their environmental impact by optimizing their use of aircraft and ground infrastructure for efficiency and safety. The FuelSense and ClearPort products provide support to make policy improvements and justified performance-based maintenance activities. With the addition of exception based real-time notifications to frontline personnel, FLYHT's customers can mitigate the negative impact of inefficiencies as situations develop. A showcase program for 2022 will be FLYHT's partnership with Swoop Airlines to reduce emissions by eliminating non-essential APU usage.

FLYHT's corporate policies are dedicated to improving efficiency in our use of resources and staying abreast of the UN's Sustainable Development Goals and ESG frameworks that are being implemented industry wide. The Corporation's products support the industry's commitment to attain and measure net-zero 2050 in a couple of key areas: increased operational efficiency and reduction of emissions.

Measurable impacts internal to FLYHT since 2017 include an 80% reduction in our operation's reliance on paper and the diversion of over 50 computers, two servers, and 100 monitors from landfills to be repurposed for those in need in the local community. In addition, FLYHT has shifted to increased virtualization, relying on AWS data centers which operate with 65% renewable energy as well as utilizing more efficient services and facilities to reduce consumption of non-renewable energy.

FLYHT's focus on product quality, continuous improvement, data security, and safety has been consistent and has been of the utmost importance to the success of the Company and its products. The ever-changing security landscape has renewed the need to focus on our procedures and processes to mitigate risk and ensure security, resulting in several initiatives throughout 2021 and planned for 2022. FLYHT is committed to providing a workplace that is diverse, inclusive, and welcoming. Responsible recruitment, increased flexibility, and balance as well as training and development opportunities have resulted in creating an environment that fosters engaged contribution, innovation, and collaboration. Improvements in diversity can be seen over the past two years and can be measured from entry level to the executive team and Board of Directors. Providing a 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.

## Q2 2022 Achievements and Activities

- In May 2022 FLYHT partnered with MBS Electronic Systems to develop a secure wireless avionics software and onboard data loading solution.
- The Company received a purchase order in May 2022 for US \$6.5m from a long-time OEM partner for the delivery of Iridium modems and associated license fees.
- Coral Jet signed an agreement with FLYHT to be the launch customer for the AFIRS Edge A320 platform.
- The Company announced the granting of 818,715 incentive stock options.
- In June 2022 FLYHT announced the completion of the first AFIRS installation on the China Express ARJ-21 aircraft.

## Results of Operations

### Selected Results

	Q2 2022 \$	Q1 2022 \$	Q4 2021 \$	Q3 2021 \$
Assets	14,674,263	16,482,757	13,250,186	14,675,428
Non-current financial liabilities	6,392,197	6,231,765	5,920,735	4,948,252
Revenue	4,881,372	5,030,657	2,527,961	3,173,331
Cost of sales	2,156,364	2,279,528	1,276,348	1,010,084
Gross profit	2,725,008	2,751,129	1,251,613	2,163,247
Gross profit %	55.8%	54.7%	49.5%	68.2%
Distribution expenses	1,339,537	1,379,783	969,992	1,000,059
Administration expenses	1,361,728	1,312,039	1,086,536	786,699
Research, development and certification engineering expenses	1,046,294	1,165,197	1,119,319	1,359,405
Results from operating activities	(1,022,551)	(1,105,890)	(1,924,234)	(982,916)
Depreciation	116,771	168,260	179,234	170,950
EBITDA	(905,780)	(937,630)	(1,745,000)	(811,966)
Income (loss)	(1,141,140)	(1,284,347)	(2,444,054)	(1,107,195)
Income (loss) per share (basic)	(0.03)	(0.03)	(0.08)	(0.03)
Income (loss) per share (diluted)	(0.03)	(0.03)	(0.08)	(0.03)
	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 profit	1,533,057	1,521,654	1,893,123	1,328,035
Gross profit %	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
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)	(0.07)	(0.06)
Income (loss) per share (diluted)	(0.05)	(0.03)	(0.07)	(0.06)

## Financial Position

### Liquidity and Capital Resource

The Company's cash and cash equivalents at June 30, 2022 decreased to \$2,431,920 from \$4,520,591 at December 31, 2021. The Company has an operating demand loan available through a Canadian chartered bank for up to a maximum of \$1.5 million, 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 accounts receivable, cash collateral in the form of a Guaranteed Investment Certificate, a guarantee under the Export Development Canada's Export Guarantee Fund and a general security agreement including a security interest in all personal property. This facility was undrawn at June 30, 2022.

The Company funded Q2 2022 operations primarily through the proceeds from cash received from sales, funding obtained from the United States Employee Retention Credit government program and contributions from the Western Innovation Initiative (WINN). The Company will strive to self-fund operations throughout the remainder of 2022.

	June 30, 2022	December 31, 2021	Variance
	\$	\$	\$
Cash and cash equivalents	2,431,920	4,520,591	(2,088,671)
Trade and other receivables	3,216,068	1,590,473	1,625,595
Contract assets	181,456	151,616	29,840
Deposits and prepaid expenses	571,676	377,688	193,988
Inventory	1,089,464	1,683,006	(593,542)
Trade payables and accrued liabilities	(2,855,923)	(1,703,309)	(1,152,614)
Customer deposits	(912,048)	(609,555)	(302,493)
Contract liabilities	(495,862)	-	(495,862)
Loans and borrowings	(687,610)	(664,470)	(23,140)
Lease liability	(363,030)	(373,756)	10,726
Current tax liabilities	(36,774)	-	(36,774)
<b>Working capital</b>	<b>2,139,337</b>	<b>4,972,284</b>	<b>(2,832,947)</b>

As at August 10, 2022 FLYHT's issued and outstanding share capital was 38,781,675.

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 continuing to manage outgoing cash flows. The Company's results showed losses from operating activities in both Q2 2022 and Q2 2021. At June 30, 2022, the Company had positive working capital<sup>1</sup> of \$2.1 million compared to positive \$4.9 million as of December 31, 2021, a decrease of \$2.8 million. The Company ended Q2 2022 with balances of \$2.4 million in cash and cash equivalents, an undrawn credit facility of \$1.5 million, and \$278 thousand 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 and the AFIRS Edge to our customers 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 expensive 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 has been 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. Since that time, FLYHT has seen a degree of operational recovery in our customers, with aircraft re-commencing operations as well as receivable payments being made. Since the latter half of 2020 that recovery has varied due to the subsequent 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 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<sup>1</sup> requirements from these sources, the Company's ability to continue as a going concern and to achieve its intended business objectives will be adversely affected. These material uncertainties may cast doubt upon the Company's ability to continue as a going concern. The condensed consolidated interim financial statements do not reflect adjustments that would otherwise be necessary if the going concern assumption was not valid, such as revaluation to liquidation values and reclassification of statement of financial position items.

## Financial Instruments

The Company is exposed to fluctuations in the exchange rates between the Canadian dollar and other currencies, primarily the US dollar and the euro, 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 at June 30, 2022.

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 data transmission where the customer has not fulfilled its financial obligations, or halt provision of service and support. The recoverability of the Company's receivables has been impacted by the consequences of the COVID-19 virus on the global airline industry, which has been reflected in the bad debt reserve.

## Contractual Obligations

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

June 30, 2022	< 1 year \$	1-2 years \$	2-5 years \$	> 5 years \$	Total \$
Accounts payable	1,732,929	-	-	-	1,732,929
Compensation and statutory deductions	761,449	-	-	-	761,449
Accrued liabilities	361,546	-	-	-	361,546
Lease payments	411,202	415,000	1,135,409	1,346,727	3,308,338
Loans and borrowings	713,893	1,158,263	3,311,642	1,432,115	6,615,913
<b>Total</b>	<b>3,981,019</b>	<b>1,573,263</b>	<b>4,447,051</b>	<b>2,778,842</b>	<b>12,780,175</b>

## Government Loans

Funding obtained via four governmental programs are included in the Loans and Borrowings totals on the Statement of Financial Position.

Under the Strategic Aerospace and Defence Initiative (SADI), at June 30, 2022 the Company has an outstanding repayable balance of \$1,030,934. 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 Q2 2022 (Q2 2021: none). The carrying value of the amount owing under this program at June 30, 2022 is \$1,224,644 (December 31, 2021: \$1,306,656).

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 2022 totaled \$117,000 (Q2 2021: \$117,000). The carrying value of the amount owing under this program at June 30, 2022 is \$1,305,849 (December 31, 2021: \$1,472,209).

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, 2022, the Company had received contributions totaling \$2,482,791 (December 31, 2021: \$1,813,632). The carrying value of the amount owing under this program at June 30, 2022 is \$1,995,667 (December 31, 2021: \$1,455,540).

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, 2022 is \$222,123 (December 31, 2021: \$221,881).

A summary of the carrying value of the government loans as at June 30, 2022 and 2021 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		
	2022 \$	2021 \$	Variance \$	2022 \$	2021 \$	Variance \$
Opening balance	4,471,226	3,212,712	1,258,514	4,456,286	3,732,670	723,616
Received	392,821	530,722	(137,901)	669,159	746,286	(77,127)
Grant portion	(109,323)	(97,090)	(12,233)	(182,250)	(169,003)	(13,247)
Interest accretion	110,559	116,135	(12,233)	223,047	225,388	(2,341)
Gain on payment deferral	-	-	-	-	(498,042)	498,042
Repayment	(117,000)	(117,000)	-	(417,959)	(391,820)	(26,139)
<b>Carrying amount at June 30</b>	<b>4,748,283</b>	<b>3,645,479</b>	<b>1,102,804</b>	<b>4,748,283</b>	<b>3,645,479</b>	<b>1,102,804</b>
Less current portion	687,610	613,985	73,625	687,610	613,985	73,625
Non-current portion	4,060,673	3,031,494	1,029,179	4,060,673	3,031,494	1,029,179

### 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, 2022 and 2021. Payment was received for 26 installation kits in the second quarter of 2022 compared to 17 received in the second quarter of 2021. In the six months ended June 30, 2022 payment was received for 52 kits, compared to 39 in the same period of 2021.

	For the three months ended June 30			For the six months ended June 30		
	2022 \$	2021 \$	Variance \$	2022 \$	2021 \$	Variance \$
Opening balance	1,128,221	860,318	267,903	609,555	492,679	116,876
Payments received	555,131	769,839	(214,708)	1,363,885	1,763,537	(399,652)
Recognized as revenue	(771,304)	(1,152,948)	381,644	(1,061,392)	(1,779,007)	717,615
<b>Balance, June 30</b>	<b>912,048</b>	<b>477,209</b>	<b>434,839</b>	<b>912,048</b>	<b>477,209</b>	<b>434,839</b>



## Comprehensive Loss

### 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, the sale of weather data, and hosting and support of maintenance systems and associated data. These 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 and installation parts. **Licensing** includes sales of modems with a related manufacturing license fee. **Technical Services** includes all services offered by the Company, including repairs, training services and other expertise.

### Revenue sources

	For the three months ended June 30			For the six months ended June 30		
	2022	2021	Variance	2022	2021	Variance
	\$	\$	\$	\$	\$	\$
SaaS	2,155,912	1,446,221	709,691	3,830,984	2,986,045	844,939
Hardware	912,682	1,404,193	(491,511)	3,022,280	2,235,897	786,383
Licensing	1,399,903	7,924	1,391,979	2,534,609	190,105	2,344,504
Technical Services	412,875	67,784	345,091	524,156	205,350	318,806
<b>Total</b>	<b>4,881,372</b>	<b>2,926,122</b>	<b>1,955,250</b>	<b>9,912,029</b>	<b>5,617,397</b>	<b>4,294,632</b>

For the six months ended June 30, 2022, total revenue increased 76.5% from \$5,617,397 in 2021 to \$9,912,029 in 2022. An early indicator of recovery from the financial impact of COVID-19 is the hardware revenue increase of 35.2% over the same period last year.

**SaaS** revenue increased by 49.1% in Q2 2022 over Q2 2021. The addition of a full quarter of CrossConsense SaaS revenues more than offset a decrease of 5.1% in AFIRS SaaS revenues resulting from a drop in customers' flight hours and active aircraft in some geographies with recent waves of the pandemic.

**Hardware** revenue in Q2 2022 saw a decrease of 35.0%, offsetting a portion of the large increases in hardware shipments seen in Q1 2022. A total of 46 installation kits were shipped YTD 2022 compared with 41 shipped YTD 2021.

**Licensing** revenue increased by \$1.4 million from Q2 2021 and \$2.3 million YTD 2022 due to increases in the number of modems and associated license fees ordered for delivery in comparative periods, as the Company began delivering on an order received in mid-Q2 2022 for \$5.65 million USD.

**Technical Services** revenue increased by 509.1% in Q2 2022 compared to Q2 2021, with contributions from CrossConsense services offsetting a decrease of 32.9% from traditional services. This revenue category can be expected to vary 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 2022	Q1 20212	Q4 2021	Q3 2021	Q2 2021	Q1 2021	Q4 2020	Q3 2020
SaaS	2,155,912	1,675,072	1,500,110	1,507,366	1,446,221	1,539,825	1,627,421	1,652,001
Hardware	912,682	2,109,598	590,975	567,356	1,404,193	831,704	1,490,709	137,137
Licensing	1,399,903	1,134,706	356,197	1,004,698	7,924	182,181	48,068	86,033
Technical Services	412,875	111,281	80,679	93,911	67,784	137,565	212,988	43,239
<b>Total</b>	<b>4,881,372</b>	<b>5,030,657</b>	<b>2,527,961</b>	<b>3,173,331</b>	<b>2,926,122</b>	<b>2,691,275</b>	<b>3,379,186</b>	<b>1,918,410</b>

Geographical distribution of revenue sources were:

	Q2 2022		Q2 2021		YTD 2022		YTD 2021	
	\$	%	\$	%	\$	%	\$	%
United States & Mexico	2,057,858	42.2	755,009	25.8	4,244,197	42.9	1,821,097	32.4
Asia	454,451	9.3	432,638	14.8	557,659	5.6	545,609	9.7
China	535,581	11.0	429,471	14.7	966,001	9.7	670,449	11.9
Middle East	151,948	3.1	363,217	12.4	322,330	3.3	549,200	9.8
Canada	284,154	5.8	596,444	20.4	1,913,261	19.3	1,352,204	24.1
Australia	149,706	3.1	67,092	2.3	210,196	2.1	141,313	2.5
Africa	122,703	2.5	108,703	3.7	246,750	2.5	239,155	4.3
Europe	1,113,090	22.8	153,857	5.3	1,311,452	13.2	255,560	4.5
South/Central America	11,881	0.2	19,691	0.7	140,183	1.4	42,810	0.8
<b>Total</b>	<b>4,881,372</b>	<b>100.0</b>	<b>2,926,122</b>	<b>100.0</b>	<b>9,912,029</b>	<b>100.0</b>	<b>5,617,397</b>	<b>100.0</b>

### Gross Profit and Cost of Sales

FLYHT's cost of sales includes the direct costs associated with specific revenue types, including the hardware unit, installation kits, training and installation support, data hosting and support costs, 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 2022 was 44.2% compared to 47.6% in Q2 2021. Gross profit increased due to differences in the mix of revenue sources in 2022 versus 2021, including the addition of revenue from the CrossConsense product lines and associated direct costs. Gross profit will fluctuate quarter over quarter depending on the mix of revenue categories.

Gross profit for the last eight quarters was:

	Q2 2022	Q2 2022	Q4 2021	Q3 2021	Q2 2021	Q1 2021	Q4 2020	Q3 2020
Gross Profit %	55.8	54.7	49.5	68.2	52.4	56.5	56.0	69.2
Cost of Sales	44.2	45.3	50.5	31.8	47.6	43.5	44.0	30.8

### Distribution Expenses (Recovery)

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

Major Category	Q2 2022 \$	Q2 2021 \$	Variance \$	YTD 2022 \$	YTD 2021 \$	Variance \$
Salaries and benefits	1,103,800	804,852	298,948	2,019,060	1,764,433	254,627
Share based compensation	11,470	12,567	(1,097)	16,637	20,474	(3,837)
Contract labour	211,560	117,788	93,772	396,163	380,568	15,595
Office	48,218	41,088	7,130	97,892	138,828	(40,936)
Travel	50,291	19,233	31,058	68,760	32,815	35,945
Equipment and maintenance	56,418	11,083	45,335	61,892	19,087	42,805
Depreciation	40,394	83,373	(42,979)	129,144	181,793	(52,649)
Marketing	35,494	3,045	32,449	39,605	14,244	25,361
Government grants	(222,108)	(197,349)	(24,759)	(222,108)	(339,612)	117,504
Bad debt reserve	4,000	344	3,656	112,275	(312,939)	425,214
<b>Total</b>	<b>1,339,537</b>	<b>896,024</b>	<b>443,513</b>	<b>2,719,320</b>	<b>1,899,691</b>	<b>819,629</b>

Distribution expenses increased 43.1% for the first six months of 2021 compared to the same periods in 2022 due mainly to the addition of CrossConsense personnel and associated expenses as of March 17, 2022.

Both **Salaries and benefits** and **Contract labour** increased due to additional staff, as well as an increased emphasis on the development of SaaS solutions to support our customers in their post-pandemic recovery plans.

**Government grants** in 2021 comprise funding received via Canadian governmental funding programs (CEWS, CERS and HASCAP) in support of businesses throughout the pandemic, relating to expenses in both the salaries and office categories. Grants received in 2022 consisted of government funding from the United States' CARES program.

**Bad debt reserve** quarter over quarter and YTD variances reflects differences in bad debt estimates in Q2 2022 compared to Q2 2021.

### *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 2022 \$	Q2 2021 \$	Variance \$	YTD 2022 \$	YTD 2021 \$	Variance \$
Salaries and benefits	518,210	282,805	235,405	917,435	595,496	321,939
Share based compensation	23,219	34,270	(11,051)	44,391	73,016	(28,625)
Contract labour	369,382	193,648	175,734	736,602	359,664	376,938
Office	183,873	152,107	31,766	335,709	292,096	43,613
Legal fees	14,426	23,394	(8,968)	135,665	53,496	82,169
Audit and accounting	62,173	51,032	11,141	123,460	98,669	24,791
Investor relations	67,874	44,246	23,628	103,867	59,128	44,739
Travel	51,128	3,970	47,158	87,252	5,225	82,027
Equipment and maintenance	79,120	37,471	41,649	168,024	167,189	835
Depreciation	39,833	26,167	13,666	60,785	55,475	5,310
Government grants	(48,258)	(108,467)	60,209	(48,258)	(249,607)	201,349
Other	748	466	282	8,835	627	8,208
<b>Total</b>	<b>1,361,728</b>	<b>741,109</b>	<b>620,619</b>	<b>2,673,767</b>	<b>1,510,474</b>	<b>1,163,293</b>

Administration expenses increased by 77.0% from the first six months of 2021 to 2022 mainly due to the addition of CrossConsense personnel and expenses associated with the March 2022 acquisition, one time contractor costs and higher government funding in Q2 2021 than was available to the Company in Q2 2022.

**Salaries and benefits** have increased due to addition of CrossConsense staff as well as a reduction in allocation of administrative staff efforts deployed in support of research and development activities.

**Contract labour** increases from Q2 2021 were from expenses related to advisory services in connection with exploring U.S. exchange listing options and in support of United States government grant applications.

**Travel expenses** have increased both in the comparative quarter and year to date periods, reflecting an increase in in-person meetings and conferences as pandemic restrictions begin to ease.

**Government grants** in 2021 comprise funding received via Canadian governmental funding programs (CEWS, CERS and HASCAP) in support of businesses throughout the pandemic, relating to expenses in both the salaries and office categories. Grants received in 2022 consisted of government funding from the United States' CARES program.

## 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 2022 \$	Q2 2021 \$	Variance \$	YTD 2022 \$	YTD 2021 \$	Variance \$
Salaries and benefits	1,166,005	1,133,487	32,518	2,194,196	2,094,462	99,734
Share based compensation	6,401	6,037	364	6,486	10,537	(4,051)
Contract labour	172,426	93,098	79,328	255,570	106,798	148,772
Office	27,803	43,351	(15,548)	54,297	103,119	(48,822)
Travel	19,576	386	19,190	23,241	386	22,855
Equipment and maintenance	20,810	10,587	10,223	40,648	14,517	26,131
Components	6,787	1,625	5,162	24,939	1,705	23,234
Depreciation	36,544	62,766	(26,222)	95,100	105,436	(10,336)
SR&ED credit	(148,637)	-	(148,637)	(148,637)	-	(148,637)
Government grants	(261,560)	(303,000)	41,440	(334,488)	(469,387)	134,899
Other	139	504	(365)	139	904	(765)
<b>Total</b>	<b>1,046,294</b>	<b>1,048,841</b>	<b>(2,547)</b>	<b>2,211,491</b>	<b>1,968,477</b>	<b>243,014</b>

Research and Development expenses were 12.3% higher for the first six months of 2022 compared to the prior year's first half. Overall costs were offset by the SR&ED credit as well as government grant funding. Research and development costs vary according to specific project requirements.

**Salaries and benefits** and **Contract labour** expenses increased in 2022 to meet the requirements of R&D initiatives as the Company continues to invest in the Actionable Intelligence suite of products and in developing the AFIRS Edge.

The **SR&ED credit** recognized in Q2 2022 reflects a return to eligible expenses under evolving Canadian governmental programs.

**Government grants** variances reflect 2021 pandemic support received via Canadian government programs (CEWS, CERS and HASCAP), and in differing levels of expenses eligible for funding under the WINN program between the first two quarters of 2022 and 2021. 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 2022 \$	Q2 2021 \$	Variance \$	YTD 2022 \$	YTD 2021 \$	Variance \$
Interest income	(6,194)	(2,824)	(3,370)	(8,516)	(6,503)	(2,013)
Net foreign exchange loss (gain)	(57,054)	23,594	(80,648)	(23,125)	52,926	(76,051)
Bank service charges	9,704	7,589	2,115	18,111	15,953	2,158
Other (gain)	-	-	-	-	(498,042)	498,042
Interest expense	29,692	29,847	(155)	55,647	60,681	(5,034)
Government loan accretion	115,395	116,136	(741)	227,883	225,387	2,496
Debenture interest and accretion	-	67,820	(67,820)	-	132,814	(132,814)
<b>Net finance costs</b>	<b>91,543</b>	<b>242,162</b>	<b>(150,619)</b>	<b>270,000</b>	<b>(16,784)</b>	<b>286,784</b>

**Other gain** is the recognition of the benefit derived from the COVID-19 payment deferrals of the Company's government loans, which had financial impact to 2021, which has not reoccurred in 2022.

**Debenture interest** relates to the convertible debenture retired in July 2021, which will not have impact to costs in 2022.

## Net Loss & EBITDA

Major Category	Q2 2022 \$	Q2 2021 \$	Variance \$	YTD 2022 \$	YTD 2021 \$	Variance \$
Net loss	(1,141,140)	(1,395,889)	254,749	(2,425,487)	(2,307,957)	(117,530)
Finance costs	91,543	242,162	(150,619)	270,000	(16,784)	286,784
Tax expense	27,046	810	26,236	27,046	810	26,236
Depreciation	116,771	172,306	(55,535)	285,029	342,704	(57,675)
<b>EBITDA</b>	<b>(905,780)</b>	<b>(980,611)</b>	<b>74,831</b>	<b>(1,843,412)</b>	<b>(1,981,227)</b>	<b>137,815</b>

## 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, but it is important to identify any 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, particularly for our commercial airline customers, as many of our cargo customers have seen positive or neutral impact to their operations. The COVID-19 pandemic has also had an impact on the supply chain in the form of longer lead-times and pricing increases. These longer lead-times and pricing increases are expected to subside over time but may temporarily result in pressure to increase inventory holdings to mitigate potential schedule delays. In late 2020 FLYHT began to see some recovery in our customers' operations, with aircraft re-commencing operations as well as receivable payments being made. Throughout 2021 and into early 2022 that recovery has varied due to subsequent waves of the pandemic impacting several areas 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.

The recovery of the airline industry from the COVID-19 pandemic as measured by operators nearing pre-pandemic flight numbers is not proving to be a good indicator of overall airline health. Even though flight numbers may be increasing, airline operations remain severely stressed. There is a risk that operational improvements as offered by the Company may not be high on the priority list for airlines that are struggling to operate under the weight of the pandemic's effects on their operations.

#### Production and Physical Workspace Risk

FLYHT relies on a physical infrastructure to carry out certain activities. Local as well as widespread impacts such as fire and extreme weather could impact FLYHT's ability to carry out operations. FLYHT maintains a business continuity plan to mitigate the impact of such events.

#### Climate Change Risk

Airlines are responsible for a significant portion of the emissions that are known to have negative climate impact. This is both an opportunity and a risk for FLYHT. FLYHT's products can aid our customers in reducing their environmental impact through optimizing the use of their assets, including a reduction in emissions. The most significant risk to FLYHT is a reduction in customers' operations due to social or other pressures, or regulation, to limit flights. If this risk were to be realized, it could eventually erode FLYHT's revenue in alignment with our customers.

#### Policy and Regulation Risk

FLYHT customers operate in a variety of jurisdictions. Government policy and regulation changes could have impact to FLYHT, both positively and negatively. Impacts could include, but not be limited to, FLYHT's ability to collect data, disseminate data and other constraints related to provision of services. Changes to governmental policy and regulations is inherently challenging area and could have material impact to FLYHT's future revenue and expenses.

### ***Geo-political Risk***

Geopolitical risk covers a wide array of risks associated with any sort of conflict or tension between states, with the potential to impact global trade, security, and political relations, with secondary results including impacts to commercial aviation, and commodity pricing increases. The Company has a globally diverse customer base, with diversity also in customer operations, including both passenger travel and freight operations. This multi-level diversity helps mitigate the impact of regional reductions and market segment reductions in aviation due to travel restrictions, sanctions, or degradation in infrastructure. If further pressure due to geopolitical factors emerge, FLYHT will respond accordingly.

### ***Employee Travel Risk***

FLYHT staff are resuming global travel to meet with current and potential customers, some of which are in jurisdictions where there is elevated risk to employee's personal safety and security. FLYHT is implementing a comprehensive travel safety, security, and emergency response program to mitigate this risk. This will include policies and procedures, pre-departure risk assessments, travel briefings and safety awareness training, itinerary and travel tracking, pre-vetting of transportation, security, and medical providers, and emergency response capability.

### ***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 operating.

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 profit slightly when revenue is recognized but allows the Company to receive cash immediately after signing an agreement. Additionally, 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 software services many of FLYHT's early adopters and is implemented on redundant fixed server platforms in Canada. CrossConsense hosts software services on redundant fixed server platforms in Frankfurt. Other services are implemented in the Amazon Web Services (AWS) cloud in various AWS regions. 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, result in a limited loss of data and cause various contractual breaches. To date, no such breach has knowingly occurred on any of the Company's systems. FLYHT continues make improvements to the security posture of systems, with a particular emphasis on transitioning systems to the cloud where it is contractually and financially viable.

### ***Foreign Currency Fluctuations***

The Company recognizes a majority of its sales in U.S. dollars with a lesser amount recognized in euros, 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, costs of goods sold, marketing and distribution costs are U.S. dollar and euro 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, particularly on a value-added product such as the Company offers.

To address this risk, FLYHT's 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. The Company 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.

### ***Revenues Associated with TAMDAR***

TAMDAR has been installed on almost 300 aircraft for the purpose of collecting weather data, which is supplemented with AMDAR 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 and AMDAR data could be diminished or stop. This lack of perceived value could depend 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 data 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. Worldwide, the number of flights has 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.

### ***Employee Retention***

FLYHT, like many businesses today, is faced with employee retention challenges often referred to as "The Great Resignation". Further, there is high demand for technology workers, particularly in the areas of software development and data science. The pandemic related shift to remote-first workplaces is both an opportunity and a threat to FLYHT. As FLYHT has embraced aspects of remote-first work, the Company can benefit from a larger talent pool. Conversely, FLYHT employees are likely targets for recruiting. FLYHT mitigates this risk by encouraging a healthy work environment, work-life balance and competitive compensation.

### ***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. 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 in 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 receiving newly built AFIRS 228 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 in the future. The AFIRS 228 is serviced in different ways; by the contract manufacturer, at FLYHT's facility or by the Company's 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.

### ***Proprietary Protection***

Patent rights are important to the Company, with the AFIRS technology being one of the Company's primary revenue sources. 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.

Generally, the patent position of advanced technology companies 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 to meet any other requirement for patentability.

### **Cyber Security Risk**

Cyber security includes the protection of both the Company's corporate and customer facing systems from information disclosure, theft or damage to hardware, software, electronic data, as well as the disruption or misdirection of the services they provide. FLYHT has also become an IATA Aviation Cyber Security Strategic Partner, which provides FLYHT a key opportunity to contribute to the development of industry standards, influence the cyber security regulatory environment for aviation, and to collaborate with key aviation cyber security leaders, including major international airlines, equipment manufactures, and international regulatory bodies.

FLYHT has responded to the increase in cyber threats with an emphasis on addressing these threats within the industry. Specifically, the Company has taken actions to assess potential threats, identify and implement recommendations, including the addition of dedicated resources to further harden our systems, and improve our preparedness.

### **Contractual Arrangement**

Certain of the Company's sales contracts require that, in the event the Chinese government restricts use of the Iridium satellite network, 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 Satellite LLC versus the former annual grant system. Given the prevalent use of Iridium services in China and the extensions of waivers reported by Iridium Satellite LLC, 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 2020. A company related to a director of FLYHT provided financial consulting services commencing in Q3 2021. All the transactions with both related parties were at terms equivalent to those that prevail in arm's length transactions.

	For the three months ended June 30		For the six months ended June 30	
	2022	2021	2022	2021
Amounts included in:	\$	\$	\$	\$
Contract labour	36,700	49,150	92,271	79,150
Accounts payable	10,162	17,400	10,162	-

### **Business Combination**

In March 2022, the Company acquired 100% of the shares of CrossConsense GmbH & Co. KG ("CrossConsense"). Founded in 2002, Frankfurt Germany-based CrossConsense develops and markets software to support commercial aviation maintenance management. Products include a predictive maintenance troubleshooting and engineering tool; software to support aircraft maintenance, repair and data migration; and live data dashboards to assist aircraft maintenance teams. CrossConsense has also constructed a progressive web application plus native apps that offer up-to-date data on an airline's fleet status. Additionally, CrossConsense offers consulting and support services as well as hosting, database operation and performance monitoring of commercial aircraft maintenance applications. This acquisition is expected to accelerate FLYHT's strategic roadmap to build out a maintenance software capability and will fulfill the Company's goal to increase its presence in the European and Middle East markets.

Under terms of the agreement, FLYHT (through its wholly owned German subsidiary formed as part of this transaction) acquired all of the outstanding securities of CrossConsense for \$1.25 million in cash and 1.9 million common shares of the Company, valued at \$1.235 million based on the fair value of each common share of the Company on the closing date of \$0.65 per share. The shares are being held in escrow and will be released equally in 1/3 increments at 4-, 16- and 28-months following issuance on the transaction's closing date. Also considered in the purchase price was anticipated retention compensation valued at \$234,600.



The Company incurred acquisition-related costs of \$254,903 in due diligence and legal fees in 2021 and a further \$150,121 in Q1 2022. Additionally, in Q1 2022 finders' fees of \$100,000 were paid to a third party in connection with the closing of the transaction. These costs have been included in Administrative Expenses.

The purchase price allocation is not final as the Company is continuing to obtain and verify information required to determine the fair value of certain assets and liabilities and the amount of deferred income taxes arising on their recognition. Goodwill has been calculated as the excess of the fair value of consideration transferred over the recognized amount of net identifiable assets acquired. The Company expects a portion of goodwill to be allocated to intangible assets upon finalization of the purchase price allocation. The portion of goodwill deductible for income tax purposes will be determined when the purchase allocation is finalized. The Company expects to finalize the amounts recognized as it obtains the information necessary to complete the analysis prior to the end of 2022.

The value allocated to the purchase price on the closing date was as follows:

	<b>\$</b>
Cash paid	1,250,000
Common shares issued	1,235,000
Retention compensation	234,600
<b>Total consideration</b>	<b>2,719,600</b>

Preliminary values allocated to the acquired assets and assumed liabilities were as follows:	<b>\$</b>
Cash and cash equivalents	1,172,213
Trade and other receivables	474,928
Deposits and prepaid expenses	17,917
Property and equipment: equipment and leasehold improvements	9,278
Property and equipment: leased facility	400,190
Goodwill	2,469,222
Trade payables and accrued liabilities	(620,658)
Contract liabilities: deferred revenue	(803,300)
Lease liability: current	(129,249)
Lease liability: non-current	(270,941)
<b>Total consideration</b>	<b>2,719,600</b>

If the acquisition had occurred on January 1, 2022, consolidated proforma revenue and loss for the six months ended June 30, 2022 would have been \$10,798,788 and \$2,436,664 respectively. The pro forma results are as follows:

	<b>For the six months ended June 30</b>	
	<b>2022</b>	<b>2021</b>
	<b>\$</b>	<b>\$</b>
Revenue	10,798,788	5,617,397
Cost of sales	4,891,202	2,562,686
<b>Gross profit</b>	<b>5,907,586</b>	<b>3,054,711</b>
Distribution expenses	2,906,078	1,899,691
Administration expenses	2,807,373	1,510,474
Research, development and certification engineering expenses	2,360,727	1,968,477
<b>Loss from operating activities</b>	<b>(2,166,592)</b>	<b>(2,323,931)</b>
Net finance (income) costs	270,072	(16,784)
<b>Loss for the period</b>	<b>(2,436,664)</b>	<b>(2,307,147)</b>

Revenue per category as per these proforma statements can be disaggregated as follows.

	<b>For the six months ended June 30</b>	
	<b>2022</b>	<b>2021</b>
	<b>\$</b>	<b>\$</b>
SaaS	4,649,832	2,986,045
Hardware	3,022,280	2,235,897
Licensing	2,534,609	190,105
Technical Services	592,067	205,350
<b>Total</b>	<b>10,798,788</b>	<b>5,617,397</b>

## **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 six months ended June 30, 2022 and 2021.

# CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION (UNAUDITED)

	June 30, 2022	December 31, 2021
	\$	\$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	2,431,920	4,520,591
Trade and other receivables	3,216,068	1,590,473
Contract assets	181,456	151,616
Deposits and prepaid expenses	571,676	377,688
Inventory	1,089,464	1,683,006
<b>Total current assets</b>	<b>7,490,584</b>	<b>8,323,374</b>
<b>Non-current assets</b>		
Property and equipment	2,956,178	2,812,606
Intangible assets	2,667,913	264,218
Inventory	1,559,588	1,849,988
<b>Total non-current assets</b>	<b>7,183,679</b>	<b>4,926,812</b>
<b>Total assets</b>	<b>14,674,263</b>	<b>13,250,186</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Trade payables and accrued liabilities	2,855,923	1,703,309
Customer deposits	912,048	609,555
Contract liabilities	495,862	-
Loans and borrowings (note 4)	687,610	664,470
Lease liability	363,030	373,756
Tax liability	36,774	-
<b>Total current liabilities</b>	<b>5,351,247</b>	<b>3,351,090</b>
<b>Non-current liabilities</b>		
Loans and borrowings (note 4)	4,060,673	3,791,816
Lease liability	2,331,524	2,128,919
Provisions	13,412	13,850
<b>Total non-current liabilities</b>	<b>6,405,609</b>	<b>5,934,585</b>
<b>Total liabilities</b>	<b>11,756,856</b>	<b>9,285,675</b>
<b>Equity</b>		
Share capital	72,165,147	70,779,594
Warrants	-	954,535
Contributed surplus	12,445,871	11,421,730
Cumulative translation adjustment	(128,523)	(51,747)
Deficit	(81,565,088)	(79,139,601)
<b>Total equity</b>	<b>2,917,407</b>	<b>3,964,511</b>
<b>Total liabilities and equity</b>	<b>14,674,263</b>	<b>13,250,186</b>

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

On behalf of the board

  
Director – Doug Marlin

  
Director – Paul Takalo

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

	For the three months ended June 30		For the six months ended June 30	
	2022 \$	2021 \$	2022 \$	2021 \$
Revenue (note 6)	4,881,372	2,926,122	9,912,029	5,617,397
Cost of sales	2,156,364	1,393,065	4,435,892	2,562,686
<b>Gross profit</b>	<b>2,725,008</b>	<b>1,533,057</b>	<b>5,476,137</b>	<b>3,054,711</b>
Distribution expenses	1,339,537	896,024	2,719,320	1,899,691
Administration expenses	1,361,728	741,109	2,673,767	1,510,474
Research, development and certification engineering expenses	1,046,294	1,048,841	2,211,491	1,968,477
<b>Loss from operating activities</b>	<b>(1,022,551)</b>	<b>(1,152,917)</b>	<b>(2,128,441)</b>	<b>(2,323,931)</b>
Finance income	(63,248)	(2,824)	(31,641)	(504,545)
Finance costs	154,791	244,986	301,641	487,761
<b>Net finance (income) costs</b>	<b>91,543</b>	<b>242,162</b>	<b>270,000</b>	<b>(16,784)</b>
<b>Income (loss) before income tax</b>	<b>(1,114,094)</b>	<b>(1,395,079)</b>	<b>(2,398,441)</b>	<b>(2,307,147)</b>
Income tax expense	(27,046)	(810)	(27,046)	(810)
<b>Income (loss) for the period</b>	<b>(1,141,140)</b>	<b>(1,395,889)</b>	<b>(2,425,487)</b>	<b>(2,307,957)</b>
Foreign currency translation adjustment	(62,368)	(22,475)	(76,776)	(33,938)
<b>Comprehensive income (loss) for the period</b>	<b>(1,203,508)</b>	<b>(1,418,364)</b>	<b>(2,502,263)</b>	<b>(2,341,895)</b>
<b>Income (loss) per share</b>				
Basic and diluted income (loss) per share	(0.03)	(0.05)	(0.07)	(0.08)

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, 2022 and 2021

	Share Capital \$	Convertible Debenture \$	Warrants \$	Contributed Surplus \$	Cumulative Translation Adjustment	Deficit \$	Total Equity (Deficit) \$
<b>Balance at January 1, 2022</b>	70,779,594	-	954,535	11,421,730	(51,747)	(79,139,601)	3,964,511
Loss for the period	-	-	-	-	(76,776)	(2,425,487)	(2,502,263)
<b>Total comprehensive loss</b>	-	-	-	-	(76,776)	(2,425,487)	(2,502,263)
<b>Contributions by and distributions to owners</b>							
Issue of common shares	1,235,000	-	-	-	-	-	1,235,000
Share-based payment transactions	-	-	-	110,114	-	-	110,114
Share options exercised	150,553	-	-	(40,508)	-	-	110,045
Warrants expired	-	-	(954,535)	954,535	-	-	-
Total contributions by and distributions to owners	1,385,553	-	(954,535)	1,024,141	-	-	1,455,159
<b>Balance at June 30, 2022</b>	72,165,147	-	-	12,445,871	(128,523)	(81,565,088)	2,917,407
<b>Balance at January 1, 2021</b>							
	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)
<b>Total comprehensive income</b>	-	-	-	-	(33,938)	(2,307,957)	(2,341,895)
<b>Contributions by and distributions to owners</b>							
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
<b>Balance at June 30, 2021</b>	64,167,666	173,524	1,195,396	10,933,432	(84,938)	(75,588,352)	796,728

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

	2022	2021
	\$	\$
<b>Cash flows used in operating activities</b>		
Loss for the period	(2,425,487)	(2,307,957)
Depreciation – property and equipment	285,029	342,704
Disposal of PP&E	11,861	3,183
Convertible debenture accretion	-	132,814
Lease liability accretion	55,647	59,831
Grant portion of contributions from WINN	(182,250)	(169,003)
CARES (ERTC) grant	(422,603)	-
Gain on loan modification	-	(498,042)
Government loan accretion	227,882	225,388
Equity-settled share-based payment expenses	110,114	104,027
Change in inventories	883,942	168,760
Change in trade and other receivables	(1,595,032)	(115,228)
Change in contract assets	(27,666)	(30,774)
Change in prepayments	(193,988)	197,865
Change in trade and other payables	1,046,657	(228,524)
Change in customer deposits	302,493	(15,470)
Change in contract liabilities	495,862	-
Change in provisions	9,291	(393)
Unrealized foreign exchange loss (gain)	(23,125)	52,926
Other interest expense	-	849
Interest paid	(55,688)	(59,831)
Interest income	(8,516)	(6,503)
Interest received	6,342	2,233
Income tax expense (recovery)	27,046	810
<b>Net cash used in operating activities</b>	<b>(1,472,189)</b>	<b>(2,140,335)</b>
<b>Cash flows used in investing activities</b>		
Acquisitions of property and equipment	(41,190)	(124,309)
Proceeds from sale of property and equipment	100	-
Acquisition of CrossConsense	(1,484,600)	-
Less: working capital acquired	241,100	-
<b>Net cash used in investing activities</b>	<b>(1,284,590)</b>	<b>(124,309)</b>
<b>Cash flows from financing activities</b>		
Issuance of common shares	-	165,000
Proceeds from exercise of share options	110,045	4,956
Payment of lease liabilities	(213,726)	(295,152)
Contributions from CARES (ERTC)	422,603	-
Contributions from WINN	669,159	496,286
Contributions from BDC (HASCAP)	-	250,000
Repayment of borrowings	(417,959)	(391,820)
<b>Net cash from financing activities</b>	<b>570,122</b>	<b>229,270</b>
<b>Net increase in cash and cash equivalents</b>	<b>(2,186,657)</b>	<b>(2,035,375)</b>
Cash and cash equivalents, beginning	4,520,591	5,127,963
Effect of exchange rate fluctuations on cash held	97,986	(13,334)
<b>Cash and cash equivalents, ending</b>	<b>2,431,920</b>	<b>3,079,255</b>

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 headquartered in Calgary, Canada, and is an AS9100 Quality registered company. CrossConsense, located in Frankfurt, Germany, is an ISO9001 certified operation. For more information visit [www.flyht.com](http://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, 2021. These unaudited condensed consolidated interim financial statements were approved by the Board of Directors on August 10, 2022.

### *(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. The functional currency of the Company’s German subsidiary is the euro.

### *(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. The Company’s results showed losses from operating activities in both Q2 2022 and Q2 2021. At June 30, 2022, the Company had positive working capital of \$2.1 million compared to positive \$4.9 million as of December 31, 2021, a decrease of \$2.8 million. The Company ended Q2 2022 with balances of \$2.4 million in cash and cash equivalents, an undrawn credit facility of \$1.5 million, and \$278 thousand 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.

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 has been 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. Since that time, FLYHT has seen a degree of operational recovery in our customers, with aircraft re-commencing operations as well as receivable payments being made. Since the latter half of 2020 that recovery has varied due to the subsequent 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, 2021 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. Earnings per share

The calculation of basic and diluted earnings per share for the three months ended June 30, 2022 was based on a weighted average number of common shares outstanding of 38,340,458 (basic and diluted) (June 30, 2021: 27,448,877 (basic and diluted)).

The calculation of basic and diluted earnings per share for the six months ended June 30, 2022 was based on a weighted average number of common shares outstanding of 37,530,812 (basic & diluted) (June 30, 2020: 27,363,481 (basic and diluted)).

The 2022 calculation of diluted earnings per share did not include outstanding stock options nor warrants, and the 2021 calculation did not include 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, except for:

- Property and equipment valued at \$28,031 (Denver CO, USA) and \$7,586 (Frankfurt, Germany)
- Leased premises valued at \$81,236 (Denver CO, USA) and \$248,951 (Frankfurt, Germany)

	For the three months ended June 30		For the six months ended June 30	
	2022	2021	2022	2021
	\$	\$	\$	\$
United States & Mexico	2,057,858	755,009	4,244,197	1,821,097
Asia	454,451	432,638	557,659	545,609
China	535,581	429,471	966,001	670,449
Middle East	151,948	363,217	322,330	549,200
Canada	284,154	596,444	1,913,261	1,352,204
Australia	149,706	67,092	210,196	141,313
Africa	122,703	108,703	246,750	239,155
Europe	1,113,090	153,857	1,311,452	255,560
South/Central America	11,881	19,691	140,183	42,810
<b>Total</b>	<b>4,881,372</b>	<b>2,926,122</b>	<b>9,912,029</b>	<b>5,617,397</b>

The following shows revenue per major product and service categories.

	For the three months ended June 30		For the six months ended June 30	
	2022	2021	2022	2021
	\$	\$	\$	\$
SaaS	2,155,912	1,446,221	3,830,984	2,986,045
Hardware	912,682	1,404,193	3,022,280	2,235,897
Licensing	1,399,903	7,924	2,534,609	190,105
Technical Services	412,875	67,784	524,156	205,350
<b>Total</b>	<b>4,881,372</b>	<b>2,926,122</b>	<b>9,912,029</b>	<b>5,617,397</b>

**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, the sale of weather data, and hosting and support of maintenance systems and associated data. These fees are recognized as the service is provided based on actual customer usage each month.

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

**Licensing** includes sales of modems with a related manufacturing license fee.

**Technical Services** includes services offered by the Company, including repairs, training services 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 \$1,669,448 CAD.

### *Major customers*

Revenues from the two largest customers represent approximately 36.7% and 40.6% of the Company's total revenues for the three and six months ended June 30, 2022 (2020: 58.5% and 59.0%).

## 7. Related parties

A company related to an officer of FLYHT provided marketing services commencing in Q4 2020. A company related to a director of FLYHT provided financial consulting services commencing in Q3 2021. 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	
	2022	2021	2022	2021
Amounts included in:	\$	\$	\$	\$
Contract labour	36,700	49,150	92,271	79,150
Accounts payable	10,162	17,400	10,162	-

## 8. Business Combination

In March 2022, the Company acquired 100% of the shares of CrossConsense GmbH & Co. KG ("CrossConsense"). Founded in 2002, Frankfurt Germany-based CrossConsense develops and markets software to support commercial aviation maintenance management. Products include a predictive maintenance troubleshooting and engineering tool; software to support aircraft maintenance, repair and data migration; and live data dashboards to assist aircraft maintenance teams. CrossConsense has also constructed a progressive web application plus native apps that offer up-to-date data on an airline's fleet status. Additionally, CrossConsense offers consulting and support services as well as hosting, database operation and performance monitoring of commercial aircraft maintenance applications. This acquisition is expected to accelerate FLYHT's strategic roadmap to build out a maintenance software capability and will fulfill the Company's goal to increase its presence in the European and Middle East markets.

Under terms of the agreement, FLYHT (through its wholly owned German subsidiary formed as part of this transaction) acquired all of the outstanding securities of CrossConsense for \$1.25 million in cash and 1.9 million common shares of the Company, valued at \$1.235 million based on the fair value of each common share of the Company on the closing date of \$0.65 per share. The shares are being held in escrow and will be released equally in 1/3 increments at 4-, 16- and 28-months following issuance on the transaction's closing date. Also considered in the purchase price was anticipated retention compensation valued at \$234,600.

The Company incurred acquisition-related costs of \$254,903 in due diligence and legal fees in 2021 and a further \$150,121 in Q1 2022. Additionally, in Q1 2022 finders' fees of \$100,000 were paid to a third party in connection with the closing of the transaction. These costs have been included in Administrative Expenses.

The purchase price allocation is not final as the Company is continuing to obtain and verify information required to determine the fair value of certain assets and liabilities and the amount of deferred income taxes arising on their recognition. Goodwill has been calculated as the excess of the fair value of consideration transferred over the recognized amount of net identifiable assets acquired. The Company expects a portion of goodwill to be allocated to intangible assets upon finalization of the purchase price allocation. The portion of goodwill deductible for income tax purposes will be determined when the purchase allocation is finalized. The Company expects to finalize the amounts recognized as it obtains the information necessary to complete the analysis prior to the end of 2022.

The value allocated to the purchase price on the closing date was as follows:

	\$
Cash paid	1,250,000
Common shares issued	1,235,000
Retention compensation	234,600
Total consideration	<u>2,719,600</u>

Preliminary values allocated to the acquired assets and assumed liabilities were as follows:	\$
Cash and cash equivalents	1,172,213
Trade and other receivables	474,928
Deposits and prepaid expenses	17,917
Property and equipment: equipment and leasehold improvements	9,278
Property and equipment: leased facility	400,190
Goodwill	2,469,222
Trade payables and accrued liabilities	(620,658)
Contract liabilities: deferred revenue	(803,300)
Lease liability: current	(129,249)
Lease liability: non-current	(270,941)
<b>Total consideration</b>	<b>2,719,600</b>

If the acquisition had occurred on January 1, 2022, consolidated proforma revenue and loss for the six months ended June 30, 2022 would have been \$10,798,788 and \$2,436,664 respectively. The pro forma results are as follows:

**For the six months ended June 30**

	<b>2022</b>	<b>2021</b>
	<b>\$</b>	<b>\$</b>
Revenue	10,798,788	5,617,397
Cost of sales	4,891,202	2,562,686
<b>Gross profit</b>	<b>5,907,586</b>	<b>3,054,711</b>
Distribution expenses	2,906,078	1,899,691
Administration expenses	2,807,373	1,510,474
Research, development and certification engineering expenses	2,360,727	1,968,477
<b>Loss from operating activities</b>	<b>(2,166,592)</b>	<b>(2,323,931)</b>
Net finance (income) costs	270,072	(16,784)
<b>Loss for the period</b>	<b>(2,436,664)</b>	<b>(2,307,147)</b>

Revenue per category as per these proforma statements can be disaggregated as follows.

**For the six months ended June 30**

	<b>2022</b>	<b>2021</b>
	<b>\$</b>	<b>\$</b>
SaaS	4,649,832	2,986,045
Hardware	3,022,280	2,235,897
Licensing	2,534,609	190,105
Technical Services	592,067	205,350
<b>Total</b>	<b>10,798,788</b>	<b>5,617,397</b>

# CORPORATE INFORMATION

## Registrar and Transfer Agent

Odyssey Trust Company  
1-587-885-0960  
<https://odysseytrust.com/>

## Share Listing

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

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Mary McMillan  
Mike Brown  
Paul Takalo

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

## Officers

Bill Tempany  
Kent Jacobs  
Alana Forbes  
Darrel Deane  
Derek Taylor  
Gurjot Bhullar

Interim Chief Executive Officer  
President  
Chief Financial Officer  
Vice President Solutions  
Vice President Sales and Marketing  
Vice President Operations

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