



INC.

FIRST QUARTER REPORT

JANUARY 31, 2018

KNIGHTHAWK INC.

Chairman's Message

To Our Shareholders:

On July 5, 2013, KnightHawk Inc. ("KnightHawk") announced that it had ceased operating its rail and rail related operations. Toward that end, KnightHawk's indirectly wholly owned subsidiary company, Kelowna Pacific Railway Ltd. ("KPR"), made an Assignment into Bankruptcy (the "Filing"). Boale, Wood & Company Ltd. was named Trustee under the Filing. Further information about the Filing is available at www.boalewood.ca.

As a result of the above decision, KPR, and KnightHawk's remaining subsidiaries, discontinued operations and commenced the process toward an orderly disposition of its rail and rail related assets. Net proceeds were used in part to repay any secured debt which was outstanding. The assets and liabilities of discontinued rail and rail related operations, and rail and rail related operating results, have been reclassified in the consolidated financial statements as Discontinued Rail Related Operations. Earnings (loss) from discontinued rail related operations for the three months ended January 31, 2018 were (\$34,000) compared to (\$41,000) for the same period in 2017. The earnings (loss) from discontinued rail related operations for the three months ended January 31, 2018 included gains (losses) on the sale of assets of discontinued rail related operations of \$2,000 compared to \$Nil for the same period in 2017.

Earnings (loss) from Discontinued Air Operations for the three months ended January 31, 2018 and 2017 were \$Nil.

By mid 2013, historic weakness in the forest products sector proved too challenging for the Company as a whole, ultimately resulting in the discontinuation of rail and rail related operations and the above Filing in July. Since the Filing date, the Trustee has had, and does have going forward, full authority and responsibility over KPR and its ultimate disposition, and timing of same, in whatever form. The Board of Directors and management of KnightHawk continue to oversee and direct the affairs of KnightHawk and its remaining subsidiaries, with a view to safeguarding the Company's assets and maximizing shareholder value over the long term.

On behalf of the Board of Directors,

"Ken Fitzgerald" (signed)

Chairman

April 2, 2018

Management's Discussion and Analysis

April 2, 2018

The following discussion and analysis of financial position and statement of operations and comprehensive earnings (loss) of KnightHawk Inc. ("KnightHawk" or "the Company") should be read in conjunction with the unaudited condensed consolidated interim financial statements for the three months ended January 31, 2018, which are prepared in accordance with International Financial Reporting Standards ("IFRS"), and the audited consolidated financial statements for the years ending October 31, 2017 and 2016, which are prepared in accordance with International Financial Reporting Standards ("IFRS"). The Company's reporting currency is the Canadian dollar.

The Company is a Venture Issuer under the rules of the TSX Venture Exchange (the "Exchange").

KnightHawk operated a short line railroad, carrying freight within British Columbia, Canada. However, on July 5, 2013, KnightHawk announced that it had ceased operating its rail and rail related operations. Toward that end, KnightHawk's indirectly wholly owned subsidiary company, Kelowna Pacific Railway Ltd. ("KPR"), made an Assignment into Bankruptcy (the "Filing"). Boale, Wood & Company Ltd. was named Trustee under the Filing. Further information about the Filing is available at www.boalewood.ca.

As a result of the above decision, KPR, and KnightHawk's remaining subsidiaries, discontinued operations and commenced the process toward an orderly disposition of its rail and rail related assets. Net proceeds were used in part to repay any secured debt which was outstanding. The assets and liabilities of discontinued rail and rail related operations, and rail and rail related operating results, have been reclassified in the consolidated financial statements as Discontinued Rail Related Operations.

In 2005 the Company's wholly owned air cargo airline subsidiary, 2734141 Canada Inc. (operating as KnightHawk Air Express) discontinued operations and commenced the process toward an orderly disposition of its air freight assets. During 2006 substantially all of its air freight assets were sold with the net proceeds used to repay all secured debt which was outstanding to its outside lender. The remaining assets and liabilities of discontinued air operations and air freight operating results have been reclassified in the consolidated financial statements as Discontinued Air Operations.

The Company is a reporting issuer in British Columbia, Alberta and Ontario and trades on the TSX Venture Exchange under the symbol "KHA.H". The Company has 11,849,853 issued and outstanding common shares as at January 31, 2018. As at January 31, 2018 there were no outstanding options to purchase common shares. Additional information on the Company is available at www.sedar.com.

FINANCINGS & SIGNIFICANT EVENTS

On July 5, 2013, KnightHawk announced that it had ceased operating its rail and rail related operations. Toward that end, KnightHawk's indirectly wholly owned subsidiary company, Kelowna Pacific Railway Ltd. ("KPR"), made an Assignment into Bankruptcy (the "Filing"). Boale, Wood & Company Ltd. was named Trustee under the Filing. Further information about the Filing is available at www.boalewood.ca.

As a result of the above decision, KPR, and KnightHawk's remaining subsidiaries, discontinued operations and commenced the process toward an orderly disposition of its rail and rail related assets. Net proceeds were used in part to repay any secured debt which was outstanding. The assets and liabilities of discontinued rail and rail related operations, and rail and rail related operating results, have been reclassified in the consolidated financial statements as Discontinued Rail Related Operations.

During the third quarter of 2009, a company, or companies, controlled by Kenneth Fitzgerald, a director and Chief Executive Officer of the Company, agreed to provide a loan facility to KnightHawk Inc. and

or one or more of its subsidiary companies. The loans are repayable on demand and bear interest at 12% per annum, with interest only monthly payments. Security for the loans include, a general security agreement creating a fixed and floating charge over the assets of KnightHawk Inc. and its subsidiary companies. The loan proceeds have been used primarily in support of acquisitions of property and equipment, as well as for general working capital purposes. Loan advances under this facility totalled \$500,000 as at April 30, 2012. Repayments of \$200,000 and \$300,000 were made in the third quarter of 2012 and 2013, respectively, reducing total loan advances under this facility to \$Nil as at January 31, 2017 and 2018.

In accordance with TSX Venture Policy 2.5, the Company had not maintained the requirements for a TSX Venture Tier 2 company. Accordingly, effective May 5, 2014, the Company's listing was transferred to NEX, the Company's Tier classification was changed from Tier 2 to NEX, and the Filing and Service Office was changed from Vancouver to NEX. As of May 5, 2014, the Company is subject to restrictions on share issuances and certain types of payments as set out in the NEX policies. The trading symbol for the Company changed from KHA to KHA.H. There was no change in the Company's name, no change in its CUSIP number and no consolidation of capital. The symbol extension differentiates NEX symbols from Tier 1 or Tier 2 symbols within the TSX Venture market.

The Company's Chief Executive Officer, Kenneth Fitzgerald, through a private company beneficially owned by him, (the "Consultant") provides management and consulting services to the Company pursuant to a consulting agreement (the "Consulting Agreement"). In June of 2016 the Compensation Committee of the Board of Directors of the Company consisting of John Howe and Bill Michealoff commenced a review of the Consulting Agreement. The original agreement was entered into on April 17, 2003 and had not been subject to substantive review or updated since that time. Following its deliberations, the Compensation Committee recommended an addendum to the Consulting Agreement (the "Addendum") at a Board meeting held on June 28, 2016. The Addendum provides for a one-time lump sum payment to the Consultant in the amount of three hundred and fifty thousand Canadian Dollars (CDN\$350,000) in the event of the Company's termination of the Consulting Agreement with or without cause or upon a change of control as defined therein. A change of control is broadly defined in the Addendum to include any material change in the voting or board control of the Company or the initiation of a Dissident Proxy Circular (as defined under applicable corporate and securities legislation) or similar document in respect of the Company.

The Compensation Committee's recommendation was based upon a number of factors including:

- The length of service of the Consultant;
- The performance of the Consultant during the period in which it has served;
- The performance of the Company during that period;
- Past annual fee levels, tenure and responsibilities assumed by the Consultant;
- Retention risk associated with the current agreement in the absence of a termination allowance; and
- Termination allowances paid or payable by comparable public companies.

The Committee also considered the key role of the Consultant in the development and execution of a business strategy for the winding up of the Company's rail operations in 2013 which has put the Company in a position to consider new business opportunities. Further, it has considered the business risk to the Company associated with the departure of the Consultant or an unsolicited transaction prior to the full implementation of the business strategy it has fostered.

The recommendation of the Compensation Committee was approved by the Board, with Mr. Fitzgerald abstaining, on July 3, 2016, and the Addendum was made effective July 29, 2016.

RESULTS OF DISCONTINUED OPERATIONS AND FINANCIAL CONDITION, LIQUIDITY AND SOLVENCY

Operating Results from Discontinued Operations

Revenues from Discontinued Rail Related Operations for the three months ended January 31, 2018 totaled \$3,000 compared to \$3,000 for the same period in 2017. Total expenses from discontinued rail related operations for the three months ended January 31, 2018 totaled \$39,000 compared to \$44,000 for the same period in 2017.

Earnings (loss) from Discontinued Rail Related Operations for the three months ended January 31, 2018 were (\$34,000) compared to (\$41,000) for the same period in 2017. The earnings (loss) from discontinued rail related operations for the three months ended January 31, 2018 included gains (losses) on the sale of assets of discontinued rail related operations of \$2,000 compared to \$Nil for the same period in 2017.

Earnings (loss) from Discontinued Air Operations for the three months ended January 31, 2018 and 2017 were \$Nil.

Financial Condition, Liquidity and Solvency, Including Assets and Liabilities of Discontinued Operations

Total assets as at January 31, 2018 were \$946,000 compared to \$983,000 as at October 31, 2017. Total liabilities as at January 31, 2018 were \$183,000 compared to \$186,000 as at October 31, 2017.

Total cash as at January 31, 2018 was \$893,000 compared to \$922,000 as at October 31, 2017.

As at January 31, 2018 assets of discontinued rail related operations had a net book value of \$40,000 compared to \$52,000 as at October 31, 2017. Liabilities of discontinued rail related operations as at January 31, 2018 were \$67,000 compared to \$72,000 as at October 31, 2017.

Included in assets of discontinued rail related operations as at January 31, 2018 were assets of KPR totalling \$Nil and assets of KnightHawk's remaining subsidiaries totalling \$40,000 compared to \$Nil and \$52,000, respectively as at October 31, 2017.

Included in liabilities of discontinued rail related operations as at January 31, 2018 were liabilities of KPR totalling \$Nil and liabilities of KnightHawk and its remaining subsidiaries totalling \$67,000 compared to \$Nil and \$72,000, respectively as at October 31, 2017.

As at January 31, 2018 and October 31, 2017 assets of discontinued air operations had a net book value of \$Nil and liabilities of discontinued air operations were \$93,000.

Selected Quarterly Information (See attached Appendix A)

Other aspects of these results are discussed elsewhere in this analysis.

RISK FACTORS

There are a number of risks inherent to the Company's business which have the potential to affect future financial results. These risks are discussed in Note 10 of the Company's Audited Financial Statements for the year ended October 31, 2017 and in the Company's latest Annual Information Form filed on www.sedar.com and are hereby incorporated by reference.

COMMITMENTS

The Company does not have any operating lease commitments.

OFF BALANCE SHEET ARRANGEMENTS

The Company does not have any off balance sheet arrangements.

SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the consolidated financial statements requires management to make judgements and estimates that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the reporting period. Actual outcomes could differ from these judgements and estimates. The consolidated financial statements include judgements and estimates which, by their nature, are uncertain. The impacts of such judgements and estimates are pervasive throughout the consolidated financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and the revision affects both current and future periods.

Significant areas requiring the use of management estimates includes the valuation of amounts receivable, assets held for sale, accrued liabilities, and the ability to realize the benefit of tax loss carry-forwards.

Significant areas requiring the use of management judgements includes the classification of financial instruments and decisions in respect of assets of discontinued operations.

TRANSACTIONS WITH RELATED PARTIES

During the three months ended January 31, 2018, the Company incurred \$17,700 in management and consulting services payable to a private company beneficially owned by Kenneth Fitzgerald, a director and Chief Executive Officer of the Company.

The Company's Chief Executive Officer, Kenneth Fitzgerald, through a private company beneficially owned by him, (the "Consultant") provides management and consulting services to the Company pursuant to a consulting agreement (the "Consulting Agreement"). In June of 2016 the Compensation Committee of the Board of Directors of the Company consisting of John Howe and Bill Michealoff commenced a review of the Consulting Agreement. The original agreement was entered into on April 17, 2003 and had not been subject to substantive review or updated since that time. Following its deliberations, the Compensation Committee recommended an addendum to the Consulting Agreement (the "Addendum") at a Board meeting held on June 28, 2016. The Addendum provides for a one-time lump sum payment to the Consultant in the amount of three hundred and fifty thousand Canadian Dollars (CDN\$350,000) in the event of the Company's termination of the Consulting Agreement with or without cause or upon a change of control as defined therein. The recommendation of the Compensation Committee was approved by the Board, with Mr. Fitzgerald abstaining, on July 3, 2016, and the Addendum was made effective July 29, 2016. A further discussion of the Addendum is contained in this Management's Discussion and Analysis under separate heading above.

During the third quarter of 2009, a company, or companies, controlled by Kenneth Fitzgerald agreed to provide a loan facility to KnightHawk Inc. and or one or more of its subsidiary companies. The loans are repayable on demand and bear interest at 12% per annum, with interest only monthly payments. Security for the loans include, a general security agreement creating a fixed and floating charge over the assets of KnightHawk Inc. and its subsidiary companies. The loan proceeds have been used primarily in support of acquisitions of property and equipment, as well as for general working capital purposes. Loan advances under this facility totalled \$500,000 as at April 30, 2012. Repayments of \$200,000 and \$300,000 were made in the third quarter of 2012 and 2013, respectively, reducing total loan advances under this facility to \$Nil as at January 31, 2017 and 2018. Interest charges on the loan advances for the three months ended January 31, 2017 and 2018 were \$Nil.

In July 2003, the Company agreed to pay a private company beneficially owned by Tom Rothfels, the former President and Chief Executive Officer of the Company, management success fees ("bonuses") based upon the amount of forgiveness of unsecured and secured debt which was negotiated in the process of restructuring the Company's wholly-owned subsidiaries. As disclosed in the financial

statements for the quarter ended April 30, 2004, the Company was able to reduce its unsecured and secured debt by \$3,354,000 and accordingly, \$265,659 was owed pursuant to this agreement. The accrued bonuses are to be paid out of future cash flows of the Company subject to quarterly review by the Board Compensation Committee. As at January 31, 2018, \$113,182 of the accrued bonuses remain payable.

FORWARD LOOKING STATEMENTS

This Management's Discussion & Analysis and Chairman's Message may contain certain "Forward-Looking Statements". All statements, other than statements of historical fact, included herein are forward-looking statements that involve various risks and uncertainties. There can be no assurance that such statements will prove to be accurate and actual results and future events could differ materially from those anticipated in such statements. Important factors that could cause actual results to differ materially from the Company's expectations are disclosed in the Company's documents filed from time to time with the TSX Venture Exchange and various securities commissions.

Appendix A**Quarterly Information
(\$'000 except per share information)**

	For The Three Months Ended			
	January 31 <u>2018</u>	October 31 <u>2017</u>	July 31 <u>2017</u>	April 30 <u>2017</u>
Total revenues	\$3	\$3	\$3	\$2
Net income (loss) before income taxes	(34)	(29)	(20)	(34)
Net income (loss) before income taxes per share	(0) cents	(1) cent	(0) cents	(0) cents
Net income (loss)	(34)	(29)	(20)	(34)
Net income (loss) per share	(0) cents	(1) cent	(0) cents	(0) cents

	For The Three Months Ended			
	January 31 <u>2017</u>	October 31 <u>2016</u>	Jul 31 <u>2016</u>	April 30 <u>2016</u>
Total revenues	\$3	\$3	\$3	\$4
Net income (loss) before income taxes	(41)	(34)	(23)	(28)
Net income (loss) before income taxes per share	(0) cents	(1) cent	(0) cents	(0) cents
Net income (loss)	(41)	(34)	(23)	(28)
Net income (loss) per share	(0) cents	(1) cent	(0) cents	(0) cents

KNIGHTHAWK INC.**Condensed Consolidated Interim Statements of Financial Position**

(Expressed in Canadian dollars)

(unaudited)

(in thousands of dollars)

	JAN 31 2018		OCT 31 2017	
ASSETS				
CURRENT				
Cash and cash equivalents	\$	893	\$	922
Prepaid expenses		13		9
		906		931
ASSETS OF DISCONTINUED RAIL RELATED OPERATIONS (Note 3)		40		52
ASSETS OF DISCONTINUED AIR OPERATIONS (Note 4)		0		0
	\$	946	\$	983
LIABILITIES				
CURRENT				
Accounts payable and accrued liabilities	\$	23	\$	21
Liabilities of discontinued rail related operations (Note 3)		67		72
Liabilities of discontinued air operations (Note 4)		93		93
		183		186
Contingencies (note 8)				
SHAREHOLDERS' EQUITY (DEFICIT)				
Share capital (Note 6)		5,554		5,554
Contributed surplus		79		79
Accumulated deficit		(4,870)		(4,836)
		763		797
	\$	946	\$	983

See accompanying notes

ON BEHALF OF THE BOARD:

(Signed) Kenneth H. Fitzgerald, Director

(Signed) John Howe, Director

KNIGHTHAWK INC.**Condensed Consolidated Interim Statements of Operations and Comprehensive Earnings (Loss)**

For the three months ended January 31 (Expressed in Canadian dollars)

(unaudited)

(in thousands of dollars except earnings (loss) per share and shares outstanding)

	<u>2018</u>		<u>2017</u>	
EARNINGS (LOSS) FROM DISCONTINUED RAIL RELATED OPERATIONS (Note 3)	\$	(34)	\$	(41)
EARNINGS (LOSS) FROM DISCONTINUED AIR OPERATIONS (Note 4)		0		0
NET COMPREHENSIVE EARNINGS (LOSS) FOR PERIOD	\$	(34)	\$	(41)
COMPREHENSIVE EARNINGS (LOSS) PER SHARE - BASIC	\$	(0.003)	\$	(0.003)
COMPREHENSIVE EARNINGS (LOSS) PER SHARE - FULLY DILUTED	\$	(0.003)	\$	(0.003)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING		11,849,853		11,849,853

See accompanying notes

KNIGHTHAWK INC.**Condensed Consolidated Interim Statements of Changes in Equity (Deficit)**

(Expressed in Canadian dollars)

(unaudited)
(in thousands of dollars except
shares outstanding)

	Number of Common Shares	Share Capital	Contributed Surplus	Equity (Deficit)	Total Equity (Deficit)
Balance, October 31, 2016	11,849,853	\$ 5,554	\$ 79	\$ (4,712)	\$ 921
Earnings (loss)	-	-	-	(41)	(41)
Balance, January 31, 2017	11,849,853	5,554	79	(4,753)	880
Earnings (loss)	-	-	-	(83)	(83)
Balance, October 31, 2017	11,849,853	5,554	79	(4,836)	797
Earnings (loss)	-	-	-	(34)	(34)
Balance, January 31, 2018	11,849,853	\$ 5,554	\$ 79	\$ (4,870)	\$ 763

See accompanying notes

KNIGHTHAWK INC.**Condensed Consolidated Interim Statements of Cash Flows**

For the three months ended January 31 (Expressed in Canadian dollars)

(unaudited)

(in thousands of dollars)

	2018		2017	
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES				
CASH FLOWS FROM DISCONTINUED RAIL RELATED OPERATIONS (Note 3)	\$	(29)	\$	(50)
CASH FLOWS FROM DISCONTINUED AIR OPERATIONS (Note 4)		-		-
INCREASE (DECREASE) IN CASH DURING PERIOD				
		(29)		(50)
CASH, BEGINNING OF PERIOD		922		998
CASH, END OF PERIOD	\$	893	\$	948

See accompanying notes

KNIGHTHAWK INC.

Notes to the Condensed Consolidated Interim Financial Statements

January 31, 2018 (Expressed in Canadian dollars)

1. NATURE OF OPERATIONS

The Company operated a short line railroad carrying freight within British Columbia, Canada. Its head office and registered office is located at #211 – 1015 Austin Avenue, Coquitlam, British Columbia, Canada, V3K 3N9. It was incorporated under the laws of Canada. However, on July 5, 2013, KnightHawk announced that it had ceased operating its rail and rail related operations. Toward that end, KnightHawk's indirectly wholly owned subsidiary company, Kelowna Pacific Railway Ltd. ("KPR"), made an Assignment into Bankruptcy (the "Filing"). Boale, Wood & Company Ltd. was named Trustee under the Filing. Further information about the Filing is available at www.boalewood.ca.

As a result of the above decision, KPR, and KnightHawk's remaining subsidiaries, discontinued operations and commenced the process toward an orderly disposition of its rail and rail related assets. Net proceeds were used in part to repay any secured debt which was outstanding. The assets and liabilities of discontinued rail and rail related operations, and rail and rail related operating results, have been reclassified in the consolidated financial statements as Discontinued Rail Related Operations.

2. BASIS OF PREPARATION

a) *Statement of Compliance*

These condensed consolidated interim financial statements were prepared in accordance with International Accounting Standards ("IAS") 34 "Interim Financial Reporting" ("IAS 34") using accounting policies consistent with the International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

These condensed consolidated interim financial statements were authorized for issuance by the Board of Directors of the Company on April 2, 2018.

b) *Basis of measurement*

These condensed consolidated interim financial statements have been prepared on a historical cost basis except for financial instruments and assets held for sale from discontinued operations that have been measured at fair value. In addition, these condensed consolidated interim financial statements have been prepared using the accrual basis of accounting.

These condensed consolidated interim financial statements, including comparatives, have been prepared on the basis of IFRS that are published at the time of preparation.

These condensed consolidated interim financial statements have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor. Not all disclosure required for annual financial statements are presented herein, accordingly, these interim financial statements should be read in conjunction with the most recently prepared annual financial statements for the year ended October 31, 2017.

c) *Principles of consolidation*

The condensed consolidated interim financial statements include the accounts of KnightHawk Inc. and its wholly-owned subsidiaries, KnightHawk Rail Ltd., 2734141 Canada Inc., 4090187 Canada Inc., and Kelowna Pacific Railway Ltd., with the accounts of Kelowna Pacific Railway Ltd. only included to the date of the above noted Filing. All applicable inter-company transactions and balances have been eliminated.

KNIGHTHAWK INC.

Notes to the Condensed Consolidated Interim Financial Statements

January 31, 2018 (Expressed in Canadian dollars)

3. DISCONTINUED RAIL RELATED OPERATIONS

On July 5, 2013, KnightHawk announced that it had ceased operating its rail and rail related operations. Toward that end, KnightHawk's indirectly wholly owned subsidiary company, Kelowna Pacific Railway Ltd. ("KPR"), made an Assignment into Bankruptcy (the "Filing"). Boale, Wood & Company Ltd. was named Trustee under the Filing. Further information about the Filing is available at www.boalewood.ca.

As a result of the above decision, KPR, and KnightHawk's remaining subsidiaries, discontinued operations and commenced the process toward an orderly disposition of its rail and rail related assets. Net proceeds were used in part to repay any secured debt which was outstanding. The assets and liabilities of discontinued rail and rail related operations, and rail and rail related operating results, have been reclassified in the consolidated financial statements as Discontinued Rail Related Operations. All assets and liabilities of KPR were removed from the consolidated financial statements effective the date of the Filing. All remaining assets and liabilities of discontinued rail related operations, being KnightHawk's remaining subsidiaries, have been written down to their estimated fair values as at January 31, 2018. The resulting gain (loss) on write-downs from the removal of KPR from the consolidated financial statements, and the write-downs of the assets and liabilities of KnightHawk's remaining subsidiaries to their net realizable value, has been disclosed separately.

Included in assets of discontinued rail related operations as at January 31, 2018 were assets of KPR totalling \$Nil (2017 - \$Nil) and assets of KnightHawk's remaining subsidiaries totalling \$40,000 (2017 - \$97,000).

Included in liabilities of discontinued rail related operations as at January 31, 2018 were liabilities of KPR totalling \$Nil (2017 - \$Nil) and liabilities of KnightHawk and its remaining subsidiaries totalling \$67,000 (2017 - \$66,000).

Included in revenues from discontinued rail related operations for the three months ended January 31, 2018 was interest of \$3,000 (2017 - \$3,000) which was earned on cash balances since rail related operations were discontinued. Included in expenses from discontinued rail related operations for the three months ended January 31, 2018 in this regard were ongoing audit, compliance and other related costs of \$20,000 (2017 - \$18,000). The earnings (loss) from discontinued rail related operations for the three months ended January 31, 2018 also included gains (losses) on the sale of assets of discontinued rail related operations of \$2,000 (2017 - \$Nil).

Earnings (loss) from discontinued rail related operations are as follows:

	For the three months ended	
	January 31	
	2018	2017
Revenues	\$ 3,000	\$ 3,000
Expenses	(39,000)	(44,000)
Earnings (loss) before gain (loss) on sale	(36,000)	(41,000)
Gain on sale of assets of discontinued rail related operations	2,000	-
Earnings (loss) from discontinued rail related operations net of \$nil tax	\$ (34,000)	\$ (41,000)

KNIGHTHAWK INC.

Notes to the Condensed Consolidated Interim Financial Statements

January 31, 2018 (Expressed in Canadian dollars)

Cash flows from discontinued rail related operations are as follows:

	For the three months ended	
	January 31 2018	2017
Net inflow (outflow) of cash related to the following activities:		
Operating	\$ (43,000)	\$ (50,000)
Financing	-	-
Investing	14,000	-
Cash flows from discontinued rail related operations	\$ (29,000)	\$ (50,000)

4. DISCONTINUED AIR OPERATIONS

In 2005 the Company's wholly owned air cargo airline subsidiary, 2734141 Canada Inc. (operating as KnightHawk Air Express) discontinued operations and commenced the process toward an orderly disposition of its air freight assets. During 2006 substantially all of its air freight assets were sold with the net proceeds used to repay all secured debt which was outstanding to its outside lender. The remaining assets and liabilities of discontinued air operations and air freight operating results have been reclassified in the consolidated financial statements as Discontinued Air Operations. All assets and liabilities of discontinued air operations have been written down to their estimated fair values as at January 31, 2018, with the resulting gain (loss) on write-downs disclosed separately.

Earnings (loss) from discontinued air operations are as follows:

	For the three months ended	
	January 31 2018	2017
Revenues	\$ -	\$ -
Expenses	-	-
Earnings (loss) before exchange gain (loss)	-	-
Unrealized foreign exchange gain (loss)	-	-
Earnings (loss) from discontinued air operations net of \$nil tax	\$ -	\$ -

There was no inflow (outflow) of cash related to operating, financing or investing activities from discontinued air operations in the three months ended January 31, 2018 and 2017.

5. INCOME TAXES

Tax losses

The Company has non-capital losses of \$3,693,000 and capital losses of \$640,000 which are available to offset future income taxes. The benefits of these losses are not recognized in these financial statements as it is probable that they will not be realized.

6. SHARE CAPITAL

KNIGHTHAWK INC.

Notes to the Condensed Consolidated Interim Financial Statements

January 31, 2018 (Expressed in Canadian dollars)

The Company's authorized share capital consists of an unlimited number of common shares without par value, of which 11,849,853 common shares are issued and outstanding as at January 31, 2018.

The Company maintains a stock option plan for certain employees, officers, and directors to acquire common shares in the Company. As at January 31, 2018 there were no outstanding options to purchase common shares.

7. CAPITAL MANAGEMENT

The Company's objective when managing capital is to maximize shareholder value and safeguard the Company's ability to continue as a going concern. This is accomplished by increasing the underlying value of the Company's assets through internal growth and investing the Company's capital profitably, and having that value reflected in the share price. Capital includes funding provided by or through, share capital, loans, and trade creditors.

8. CONTINGENCIES

From time to time, in the ordinary course of operations, the Company may be involved in potential or alleged legal actions. The Company makes an accrual based on its judgement regarding the likelihood of the outcome of the action and information in hand.

The Company has an uncollateralized non interest bearing promissory note obligation in the amount of \$906,000 (2017 - \$959,000) (U.S. \$736,900) repayable only if certain predetermined quarterly cash flow thresholds are exceeded by the Company. No repayments were required during the three months ended January 31, 2018 as the Company did not exceed the predetermined quarterly cash flow thresholds. As the Company had not exceeded the predetermined quarterly cash flow thresholds since inception of this obligation in 2004, and cash flow was further impaired by discontinued operations, the contingent obligation was written down in the year ended October 31, 2015 to its estimated fair value of \$Nil as at October 31, 2015. In the event that the Company exceeds the predetermined quarterly cash flow thresholds in any future period, any required repayment will be recorded as an expense in that future period, until the promissory note is repaid in full.

The Company's Chief Executive Officer, Kenneth Fitzgerald, through a private company beneficially owned by him, (the "Consultant") provides management and consulting services to the Company pursuant to a consulting agreement (the "Consulting Agreement"). In June of 2016 the Compensation Committee of the Board of Directors of the Company consisting of John Howe and Bill Michealoff commenced a review of the Consulting Agreement. The original agreement was entered into on April 17, 2003 and had not been subject to substantive review or updated since that time. Following its deliberations, the Compensation Committee recommended an addendum to the Consulting Agreement (the "Addendum") at a Board meeting held on June 28, 2016. The Addendum provides for a one-time lump sum payment to the Consultant in the amount of three hundred and fifty thousand Canadian Dollars (CDN\$350,000) in the event of the Company's termination of the Consulting Agreement with or without cause or upon a change of control as defined therein. The recommendation of the Compensation Committee was approved by the Board, with Mr. Fitzgerald abstaining, on July 3, 2016, and the Addendum was made effective July 29, 2016. A further discussion of the Addendum is contained in the Management's Discussion and Analysis for the financial quarter ending July 31, 2016 and January 31, 2018.

9. SEGMENTED REPORTING

KNIGHTHAWK INC.

Notes to the Condensed Consolidated Interim Financial Statements

January 31, 2018 (Expressed in Canadian dollars)

The Company operated from one geographic area, British Columbia, Canada, and had one operating segment, rail freight and related services, which discontinued operations in the year ended October 31, 2013.