

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 and six months ended April 30, 2018 were (\$34,000) and (\$68,000), respectively, compared to (\$34,000) and (\$75,000) for the same period in 2017. The earnings (loss) from discontinued rail related operations for the three and six months ended April 30, 2018 included gains (losses) on the sale of assets of discontinued rail related operations of \$6,000 and \$8,000, respectively, compared to \$7,000 and \$7,000 for the same period in 2017.

Earnings (loss) from Discontinued Air Operations for the three and six months ended April 30, 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

June 27, 2018

Management's Discussion and Analysis

June 27, 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 and six months ended April 30, 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.

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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 April 30, 2018. As at April 30, 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 April 30, 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 and six months ended April 30, 2018 totaled \$3,000 and \$6,000, respectively, compared to \$2,000 and \$5,000 for the same period in 2017. Total expenses from discontinued rail related operations for the three and six months ended April 30, 2018 totaled \$43,000 and \$82,000, respectively, compared to \$43,000 and \$87,000 for the same period in 2017.

Earnings (loss) from Discontinued Rail Related Operations for the three and six months ended April 30, 2018 were (\$34,000) and (\$68,000), respectively, compared to (\$34,000) and (\$75,000) for the same period in 2017. The earnings (loss) from discontinued rail related operations for the three and six months ended April 30, 2018 included gains (losses) on the sale of assets of discontinued rail related operations of \$6,000 and \$8,000, respectively, compared to \$7,000 and \$7,000 for the same period in 2017.

Earnings (loss) from Discontinued Air Operations for the three and six months ended April 30, 2018 and 2017 were \$Nil.

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

Total assets as at April 30, 2018 were \$906,000 compared to \$983,000 as at October 31, 2017. Total liabilities as at April 30, 2018 were \$177,000 compared to \$186,000 as at October 31, 2017.

Total cash as at April 30, 2018 was \$865,000 compared to \$922,000 as at October 31, 2017.

As at April 30, 2018 assets of discontinued rail related operations had a net book value of \$31,000 compared to \$52,000 as at October 31, 2017. Liabilities of discontinued rail related operations as at April 30, 2018 were \$63,000 compared to \$72,000 as at October 31, 2017.

Included in assets of discontinued rail related operations as at April 30, 2018 were assets of KPR totalling \$Nil and assets of KnightHawk's remaining subsidiaries totalling \$31,000 compared to \$Nil and \$52,000, respectively as at October 31, 2017.

Included in liabilities of discontinued rail related operations as at April 30, 2018 were liabilities of KPR totalling \$Nil and liabilities of KnightHawk and its remaining subsidiaries totalling \$63,000 compared to \$Nil and \$72,000, respectively as at October 31, 2017.

As at April 30, 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 April 30, 2018, the Company incurred \$20,700 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 April 30, 2017 and 2018. Interest charges on the loan advances for the three and six months ended April 30, 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 April 30, 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			
	April 30 <u>2018</u>	January 31 <u>2018</u>	October 31 <u>2017</u>	July 31 <u>2017</u>
Total revenues	\$3	\$3	\$3	\$3
Net income (loss) before income taxes	(34)	(34)	(29)	(20)
Net income (loss) before income taxes per share	(0) cents	(0) cents	(1) cent	(0) cents
Net income (loss)	(34)	(34)	(29)	(20)
Net income (loss) per share	(0) cents	(0) cents	(1) cent	(0) cents

	For The Three Months Ended			
	April 30 <u>2017</u>	January 31 <u>2017</u>	October 31 <u>2016</u>	Jul 31 <u>2016</u>
Total revenues	\$2	\$3	\$3	\$3
Net income (loss) before income taxes	(34)	(41)	(34)	(23)
Net income (loss) before income taxes per share	(0) cents	(0) cents	(1) cent	(0) cents
Net income (loss)	(34)	(41)	(34)	(23)
Net income (loss) per share	(0) cents	(0) cents	(1) cent	(0) cents