

2019

MANAGEMENT DISCUSSION & ANALYSIS

FLYHT AEROSPACE SOLUTIONS LTD.



FLYHT™
INSIGHT • ACTION • CONTROL

LETTER TO SHAREHOLDERS



FLYHT's highlights for 2019 included finishing the year with positive \$1.0 million in EBITDA, expanding a contract with an OEM partner and securing a new contract with a major airline, completing the integration of assets we acquired in 2018 and completing a successful equity raise late in the year. Financially, Software as a Service (SaaS) products grew to become the dominant component of revenue, representing nearly 50% of 2019 overall revenues. FLYHT also finished the year with a sales order backlog of nearly \$50 million. In 2020, we will continue developing new product offerings and cross selling customers to both enhance our competitive position and strengthen current relationships. Meanwhile, we are mindful of the impact the COVID-19 virus is having on the aviation and world transportation industries. We are taking the necessary precautions internally and exercising caution as we assess the overall business environment. Despite the current macro environment, we are excited about several bids in the sales pipeline and are looking to improve 2020 sales orders over those orders received in 2019.

In 2019, FLYHT grew revenues 56% over 2018 and finished the year with a positive \$1.0 million in EBITDA. Perhaps most pertinent to our current strategic priorities, SaaS, improved by 85% over 2018. Total SaaS revenues were over \$10.2 million and represented 48% of the company's total revenues for the year 2019. The increases in both total revenue and the SaaS revenues were dramatically aided by the Panasonic Weather Solutions Assets we acquired in October of 2018; but there was material organic growth as well. Importantly, Licensing revenue, which increased by 43% over 2018, grew for the first-time year over year since 2016. In 2017 and 2018, diminishing Licensing revenue obscured the growth we were experiencing in the core revenue areas of SaaS and the enabling Hardware.

Additional 2019 highlights include a successful \$6.7 million equity raise during a challenging micro-cap financial environment and the expansion of our agreement with L3Harris Technologies to install the AFIRS 228S on the Airbus A220 as a Future Air Navigation System (FANS) and ATC Safety Services Voice (SATVOICE) option. We also successfully integrated the assets we acquired Panasonic Weather Solutions (PWS) in Littleton Colorado, and finished the year securing a FANS and SATVOICE contract with WestJet for their Boeing 737 fleet. Organizationally, we welcomed two new members to our Board of Directors, Nina Jonsson and Captain Mary MacMillan. Given the operational and financial progress we made during the year, 2019 was undoubtedly a transformative year for FLYHT.

As we turn our attention to 2020, we're acutely monitoring all developments related to the COVID-19 virus, which has particularly impacted the commercial aviation industry at the time of this writing. Flights and overall flight hours are down significantly worldwide, including those of our customers. Currently, we expect to see a significant impact on our recurring revenues in the second quarter because many of our customers have had to park their aircraft. We recognize that our customer base is stressed, especially in China, and it is likely we will see delays in payments and hardware orders. We are keeping a close eye on the situation, helping where we can and exercising caution with the daily execution of the business. We hope for a quick diminishment of the virus and a return to robust operations for our customers.

Despite the current macro environment, there are several reasons we remain optimistic about 2020. In May, FLYHT will be moving into a new leased space in Calgary which will accommodate the continued growth of our company. We are also making progress developing new and enhancing current hardware platforms as well as improving our SaaS products. We expect to make progress cross selling to our legacy and acquired customer bases with the complete FLYHT product offerings. Additionally, we have submitted several proposals, which we believe may fuel additional growth for FLYHT in 2020 should those contracts come to fruition. Finally, we are rebranding the company, rolling out an improved website, and developing new advertising materials to highlight the significant changes which have occurred at FLYHT. I hope you find these changes as pleasing as we do.

Thank you for your continued support of FLYHT!

A handwritten signature in black ink that reads "Thomas R. Schmutz". The signature is fluid and cursive.

Thomas R. Schmutz
Chief Executive Officer

MANAGEMENT DISCUSSION & ANALYSIS

This management discussion and analysis ("MD&A") is as of April 8, 2020 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, 2019 and 2018 and the accompanying notes. Additional information with respect to FLYHT can be found on SEDAR at www.sedar.com. The Company has prepared its December 31, 2019 consolidated financial statements and the notes thereto in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). The Company's accounting policies are provided in note 3 to the consolidated financial statements.

Non-GAAP Financial Measures

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

Forward-Looking Statements

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

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

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

FLYHT Overview

FLYHT improves aviation safety, efficiency and profitability by providing airlines, leasing companies, owners, operators and original equipment manufacturers with real-time insights into how their aircraft are performing. The Company's products include AFIRS™ (Automated Flight Information Reporting System), a satellite communications (Satcom) aircraft interface device (AID) which enables real-time streaming of flight information, aircraft tracking and health monitoring, fuel management, and black box data streaming, as well as TAMDAR™ (Tropospheric Airborne Meteorological Data Reporting), which aggregates and streams airborne weather data in real-time. FLYHT is headquartered in Calgary, Canada with an office in Littleton, Colorado and is an AS9100 Quality registered company. For more information, visit www.flyht.com.

FLYHT Systems

FLYHT offers a number of hardware systems and business solutions which support satellite connectivity, real-time communication, flight tracking, and data collection and transmission to support operational, maintenance, and weather data analysis and communications for airline and fleet operators.

AFIRS™ System

The Automated Flight Information Reporting System (AFIRS™) is a device installed on aircraft that captures and monitors hundreds of essential functions from the aircraft including data recorded by the flight data recorder (the "black box"). AFIRS sends this information through satellite networks to FLYHT's servers, which route the data to customer-specified end points and supply data to our solutions which display real-time fleet visualizations and actionable fleet intelligence.

In addition to its data monitoring and flight tracking functions, AFIRS provides voice and text messaging capabilities that give pilots the ability to communicate with ground support. The system supports a number of value-added solutions including tracking aircraft and monitoring aircraft health to weather observations. FLYHT's global satellite coverage is enabled by the Iridium satellite network, providing service to our customers anywhere on the planet.

Additionally, AFIRS is unsurpassed when it comes to automating the collection and dissemination of block and flight times. Accurate Out-Off-On-In (OOOI) times translate directly into optimal crew utilization ensuring flight crews don't time-out ahead of schedule. Accurate hour and cycle information also extends the time between maintenance intervals maximizing utilization of life-limited parts. Precise OOOI times lead to financial savings for operators on a power-by-the-hour or lease contracts with a utilization component.

FLYHT received regulatory certification for installation of AFIRS in a large number of widely used commercial aircraft brands and models (see systems approvals section). The AFIRS 228S features cater to the evolving needs of airlines by providing a customizable and flexible product.

In early 2016, FLYHT announced the Canadian Technical Standard Order (CAN-TSO) Design Approval, CAN-TSO-C159b for the AFIRS 228S. The certification, granted by Transport Canada, represents an additional level of airworthiness standards met by AFIRS to provide safety services voice and data.

Our systems and solutions can provide enhanced global flight tracking capabilities that meet and exceed ICAO's Global Aeronautical Distress and Safety System (GADSS) definitions for both normal and abnormal tracking.

Our CAN-TSO-C159b Iridium SATCOM solution provides the aircraft with reliable FANS 1/A, ADS-C, CPDLC and ACARS over Iridium messaging capabilities. Benefits offered by FANS include: more efficient route structure, reduced flight times, reduced fuel burns, and enhanced communications between Air Traffic Control (ATC) and the aircraft.

UpTime™

UpTime is a ground-based, enterprise server that communicates with AFIRS through satellite connectivity and serves our customers with real-time applications. Uptime was originally implemented on a fixed server and some of FLYHT's customers still receive services via redundant servers located in different cities across Canada. In 2017, FLYHT launched UpTime Cloud and began re-hosting and enhancing aspects of the UpTime server onto the Amazon Web Services (AWS) Cloud.

FLYHT hosts Cloud instances in different countries according to customer needs and requirements. Customers access their UpTime accounts and data through a secure internet login. From their account, customers can enable, configure, and manage deployed AFIRS units around the globe as well as upgrade unit software.

TAMDAR™

FLYHT's Tropospheric Airborne Meteorological Data Reporting (TAMDAR™) system is a unique sensor device installed on aircraft that captures temperature, pressure, winds aloft, icing, turbulence and relative humidity. It bundles the data with Global Positioning System (GPS) data and transmits the information in real-time over satellite networks. TAMDAR data provides real-time, high-quality atmospheric data collected from 200+ aircraft in North America, Asia, and Europe through frequent soundings (thousands per day) and continuous observations including all the metrics of Radiosonde observations plus icing and turbulence.

Like the data traditionally gathered by weather balloons worldwide, this information collected by TAMDAR is used to update weather models. Unlike weather balloons, TAMDAR collects the data continuously and in real-time by transmitting "soundings" or batches of data to airline ground operations or weather offices.

TAMDAR technology is protected by several U.S. and worldwide patents. The relative humidity data, gathered throughout an aircraft's flight, makes these weather soundings particularly valuable to meteorologists.

FLYHT Solutions

FLYHT sells innovative technology solutions which use the data collected our avionics systems to provide valuable business intelligence which aircraft operators can use to streamline and optimize operations and proactively enhance safety.

AirMap™

FLYHT's AirMap application provides real-time monitoring and insight of fleets through the application's Aircraft Situational Display (ASD) and an Aircraft Messaging Center (AMC). AirMap offers a new way to run Aircraft Operations Centers by maximizing automation through intelligent data, alerts, and real-time status updates through an easy-to-use interface which visualizes situational data. AirMap is also scalable and flexible as it supports integration with external feeds for position and weather information.

AirMap enhances FLYHTLog™ and FLYHTASD™ products with flight tracking, and Out-Of-On-In (OOOI) messaging so customers can "visualize" and seamlessly communicate with their fleets of aircraft through AirMap's Aircraft Situational Display (ASD). Additional capabilities include an ACARS communications function for pilots and the ability to ingest flight plans as baselines so that flight deviations or indications of "low fuel relative to plan" trigger operational alerts.

AirMap ASD is the primary interface for monitoring the overall fleet status. It is a powerful tool that aggregates a wide array of aircraft and fleet data into an optimized display of visualized fleet intelligence.

FLYHTFuel™

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

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

This unique and intuitive application highlights exceptions to best practices, provides quick drill downs to spot the root cause of issues, identifies trends, and displays associated costs. The solution can be tailored to meet pilot union requirements by removing pilot identification or it can be configured to display pilot performance if no such restrictions apply.

FLYHTFuel also uses real-time flight data acquired from the aircraft's onboard systems to present the data through intuitive dashboard visualizations. The dashboard compares how the aircraft was flown to how it could be flown in order to maximize efficiency and fuel savings. The data that is collected is based on eight industry recognized fuel savings initiatives including: single engine taxi out, reduced flap takeoffs, reduced acceleration altitude, low drag approaches, reduced flap landings, idle reverse, single engine taxi in, and APU monitoring.

FLYHTHealth™

Our FLYHT Health™ solution consists of three different but related functions: automated engine trend reporting, real-time engine and airframe exceedance monitoring, and remote real-time diagnostics.

Engine trend reporting automates the delivery of required engine trend data to engine manufacturers and third-party maintenance support companies to satisfy engine warranty requirements.

Exceedance monitoring keeps watch over thousands of aircraft data parameters and creates automated exceedance reports when an out of bounds condition exists on the aircraft.

Automated reports with configurable reporting intervals notify the airline when a maintenance event has occurred. The airline can then use FLYHT's real-time diagnostics capabilities to interrogate aircraft systems and identify the source of problems in-flight to preemptively initiate repair protocols and logistics planning—long before the aircraft lands at its destination.

By automating and enhancing the real-time and long-term monitoring of airplane data, FLYHTHealth also enables proactive management of maintenance and reduces aircraft “turn-times” and downtimes, and subsequently also the operational and financial impact of unscheduled maintenance.

FLYHTLog

FLYHTLog is a solution that enables operators to monitor the status and phase of flight of their aircraft and collect detailed Out, Off, On and In (OOOI) time information. Airlines can also automatically route the collected aircraft system and operational data to various partner systems. With increased situational awareness and more accurate flight times, airlines can save money on flight crew pay, operating costs, and maintenance operations.

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

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

FLYHTMail™

Our FLYHTMail solution 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.

FLYHTVoice™

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

FLYHTStream™

FLYHTStream is a revolutionary, industry-leading solution that performs real-time triggered alerting and black box data streaming in the event of an abnormal situation on an aircraft. FLYHTStream can be activated automatically by a set of pre-determined factors by the pilots or on the ground by airline operations.

It uses the AFIRS onboard logic and processing capabilities in combination with ground-based servers to interpret and route alerts and messages to key groups on the ground, such as the airlines, operation centers, and regulators. Animation software converts the raw FDR data into visualizations that can be viewed from any computer to provide ground personnel a view of the controls to get exact insight into what is happening onboard the aircraft. FLYHT has been awarded Canadian, U.S., and Chinese patents for this data-streaming technology, (pending in other countries).

FLYHT Weather Observations

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

Provided as an integrated solution to AirMap, our Weather Observations product will provide a visualization of flight information along with weather data and overlays. As well, the interface will provide access to the collected “soundings” page which shows Skew-T diagrams (one of four thermodynamic diagrams commonly used in weather analysis and forecasting) from equipped aircraft.

In warm regions Weather Observation data can help determine if thunderstorms may develop or if there is potential for a storm to produce hail, downbursts, or tornadoes. In cold regions the Weather Observation data can help evaluate the temperature profile which is crucial for identifying the precipitation type such as rain, freezing rain, or snow. This kind of predictive weather intelligence can help flights avert weather systems that may impact fuel consumption and flight comfort as well as help re-route for airport closures or plan for ground-support and gate shutdowns due to severe weather.

System Approvals

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

FLYHT has STC approvals from TCCA (Canada), FAA (United States), EASA (European Union), CAAC (China), ANAC (Brazil), DGAC (Mexico), SAAU (Ukraine) and ECAA (Egypt) for various aircraft models to address a variety of customer requirements. FLYHT is currently pursuing STC validation from the Federal Air Transport Agency of Russia.

FLYHT's expertise in airworthiness certification enabled it, in October 2008, to join a select group of Canadian companies who are approved by TCCA as a DAO. Very few organizations achieve DAO status because of the time and expertise required to meet TCCA standards. FLYHT's DAO status, along with the delegations it has received, allows the Company to obtain and revise its own STCs and TSOs with minimal TCCA oversight. This speeds up the process by lessening wait times and reduces cost and reliance on contractors.

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

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

The process to receive an STC takes some time, but in all cases, it starts with an STC application through the TCCA, FAA or EASA. FLYHT typically starts the process by opening an application with the regulator before an STC package is created. The data package is prepared, including engineering documents outlining how FLYHT equipment is substantiated and installed on the aircraft, and the package is submitted to the regulator for approval.

Once approved, first-of-type ground and flight testing takes place to fulfill regulatory requirements. FLYHT requires access to the proposed types and models of aircraft, which is done in cooperation with an existing or potential customer.

After all tests are complete, FLYHT submits an application for the activation and data package to the regulator, confirming all regulatory requirements have been met and the unit is fit for operation on that aircraft type as designed. From there, the regulator approves the submission and an STC is issued.

To acquire an STC validation from a different national regulator, FLYHT submits an application through a regulator such as TCCA to a regulator such as the FAA or EASA with the STC data package previously approved by TCCA. The regulator then reviews the package and issues an STC for that country based on their validation of the TCCA STC.

Timelines required for the approval process will vary depending on aircraft and workloads, but typically take about three to four months through TCCA, with an additional three to eight months if an STC is required from an additional regulator like the FAA or EASA.

STC Chart AFIRS and UpTime

TCCA Canada		FAA USA		EASA EU		CAAC China		ANAC Brazil		
220	228	220	228	220	228	220	228	220	228	
A	A	A	A	A	A	A	A			Airbus A319, A320, A321
			I							Airbus A300
P										Airbus A330
	A		A					A		ATR42 -300
	A		I							ATR42 -500
	A		A					A		ATR-72 -100, -200
					A*					ATR42-500 "600 Version" *STC Twenty One
					A*					ATR72-212A "600 Version" *STC Twenty One
A		A		A		A				Boeing B737 -200
A	A	A	A	A	A	A	A		A	Boeing B737 -300, -400, -500
A		A		A		A				Boeing B737 -600
A	A	A	A	A	A	A	A		A	Boeing B737 -700, -800
			A				I			Boeing B737 -900ER
	A						I			Boeing 747-200
A	A	A	A	A	A	A	A			Boeing 757 -200
A	A	A	A	A	A	A	A			Boeing 767 -200, -300
	A		A							Boeing B777
A	A*	A	A*	A	A*					Bombardier DHC 8 -100, -200, -300 *Avmax
A	A		I				I			Bombardier DHC 8 -400
A	A	A	A	A			A			Bombardier CRJ 100, 200, 440
	A		A				A			Bombardier CRJ -700, 900
A		A								McDonnell Douglas DC-10 (KC-10 military)
			A							McDonnell Douglas MD-82
	A		A							McDonnell Douglas MD-83
A										Fokker 100
A	A	A	A	A	A					Hawker Beechcraft -750, 800XP, 850XP, 900XP
A										Viking Air DHC -7 (LSTC)
	A		A				A		A	Embraer EMB 190
		A								Embraer Legacy 600 and EMB – 135/145

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

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

STC Chart FLYHTWeather

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

Chart Legend: TAMDAR (TR) or FLIGHTLINK (FL) model, A = Approved, P = Pending, I = In Progress * = Partnered with 3rd party, ‡ = Approval in progress.

Trends and Economic Factors

FLYHT examines the results of measurements made by leading aviation associations and corporations in order to gain insight on the status of the industry. These trends and economic factors summarized the industry in the fourth quarter of 2019; however, there has been substantial change in the industry since the worldwide impact of the COVID-19 pandemic. Many commercial airlines and aircraft leasing organizations are facing extreme stress at the time of this writing and several may enter bankruptcy as a result. As airlines enter into financial stress, so do suppliers to that industry, such as FLYHT. For virtually all airlines, cash flow is drastically reduced, and this will impact the airline industry's ability to pay for services and capital expansion, which will cause a decrease in spending in these areas. We expect the economic trends outlined by leading aviation associations to highlight the challenging aspects of the pandemic on commercial aviation in the first quarter update to these measurements.

The Aviation Industry in 2019

The International Air Transport Association's (IATA) industry results, measured in Revenue Passenger Kilometres (RPK) and Freight Tonne Kilometres (FTK) are the passenger and freight contributions to airline revenue and are significant markers to determine the health of the industry. Passenger Traffic measured in (RPKs) rose by 4.2% compared to the full year of 2018¹. Global freight traffic (measured in FTK) fell by 3.3% compared to 2018 while capacity (AFTK) rose by 2.1%. This was the first year of declining freight volumes since 2012, and the weakest performance since the global financial crisis in 2009 (when air freight markets contracted by 9.7%)².

Results from large commercial aircraft manufactures were mixed for 2019. Airbus delivered 863 commercial aircraft in 2019, compared to 800 in the same period of 2018³. Boeing delivered 380 airplanes in 2019, compared with 806 a year earlier⁴. Embraer delivered a total of 198 jets in 2019, of which 89 were commercial aircraft and 109 were executive jets which represents an increase of 9% compared to 2018⁵. Bombardier delivered 142 business jets and 33 commercial aircraft in 2019 in comparison to 137 business aircraft and 35 commercial aircraft in 2018⁶.

FLYHT's Market

FLYHT's core technology, which uses satellite networks to provide real-time communication with aircraft, is marketed to a number of sectors within the global aerospace industry. The Company's AFIRS, FlightLink and TAMDAR systems can be installed on commercial, business or military aircraft, although the latter category represents a smaller portion of current business. In addition, FLYHT's UpTime Cloud and AirMap and other solutions are sold to the same market segments.

FLYHT remains an industry leader in real-time data streaming technology that enhances the efficiency and safety of aircraft. Over the last year, the Company focused on the development and launch of a cloud-based, UpTime solution. UpTime Cloud is an enhanced version of our previous platform. It is scalable enabling us to easily ramp-up and increase customers. As well it is customer-configurable—offering our customers greater flexibility and control to tailor the solution to meet their specific needs.

FLYHT will continue to add functions and features to enhance and improve UpTime Cloud capabilities to include additional tracking, data collection, transmission, and analysis to optimize airline operational and maintenance activities. Aircraft health monitoring functions will be able to detect and notify airlines of problems in real-time—while the aircraft is in flight—enabling operators to trigger preparations for repairs, parts sourcing, crew changes, or re-routing before the aircraft lands. By providing operators with real-time business intelligence, airlines will be able to optimize their fleet operations thereby reducing operational costs and increasing profit margins.

FLYHT also engaged in a strategic partnership with ATP CaseBank to produce an enhanced aircraft health and monitoring SaaS application for the MRO (commercial aircraft maintenance, repair and overhaul) market. This partnership supports FLYHT's efforts in both Hardware and SaaS product development and growth. This effort is still in early stages.

FLYHT continues progress in the weather business after the acquisition of the assets of Panasonic Weather Solutions (PWS) in 2018. The PWS product set includes FlightLink (an Iridium Satellite Data Unit) and the Tropospheric Airborne Meteorological Data Reporting system (TAMDAR™). TAMDAR is a unique sensor device installed on aircraft that captures temperature, pressure, winds aloft, icing, turbulence and relative humidity. TAMDAR bundles the data it collects with Global Positioning System (GPS) data and transmits the information in real-time over satellite networks. TAMDAR technology is protected by several U.S. and worldwide patents.

Like the data traditionally gathered by weather balloons worldwide, this information collected by TAMDAR is used to update weather models. Unlike weather balloons, TAMDAR collects the real-time data continuously and in real-time by transmitting "soundings" or batches of data to airline ground operations or weather offices.

The relative humidity data, gathered throughout an aircraft's flight, makes these weather soundings particularly valuable to meteorologists. This kind of predictive weather intelligence can also help airlines change flight plans to avert weather systems that may impact fuel consumption and flight comfort as well as help re-route for airport closures or plan for ground support and gate shutdowns due to severe weather.

FLYHT also acquired the AirMap solution from PWS which is a situational tracking solution that provides real-time visualizations of fleet status. AirMap was purpose built for AirAsia to serve as their primary flight display at their aircraft operations center in Kuala Lumpur.

FLYHT has participated in industry events and working groups to demonstrate our AFIRS solution's capabilities and the real-time data streaming enabled by FLYHTStream. FLYHT will continue to participate in industry working groups to advance engineering and technical requirements and prepare for future development of the AFIRS product line to meet industry needs.

FLYHT's primary sales target has been commercial passenger and air freight transport customers, while our secondary targets are business jet aircraft (used for business and personal travel) and military air transport aircraft that require AFIRS functionality. FLYHT's business relies primarily on retrofitting existing aircraft to provide recurring, real-time aircraft data services. It is FLYHT's objective to win additional positions on new aircraft through OEM partnerships, with a goal to fit AFIRS equipment on aircraft during production so that UpTime Cloud services can be turned on immediately after delivery to the customer.

The Canadian dollar weakened relative to the U.S. dollar throughout Q4 2019¹ and the Company experienced a resulting positive impact revenue and income compared to Q4 2018. As a result of these currency movements, the Company's revenues, which are substantially all denominated in U.S. dollars, were higher than they would have been had the foreign exchange rates not changed. It is the standard of the aviation industry to conduct business in U.S. dollars. While the majority of the Company's operating and overhead costs are denominated in Canadian dollars, a significant portion of the cost of sales, marketing and distribution costs are U.S. dollar denominated, and therefore a partial natural hedge exists against fluctuations of the Canadian dollar.

2019 Contracts, Achievements and Activities

Contracts

FLYHT announced US\$12.97 million in new sales contracts and contract renewals during 2019. All these contract figures assume that the Company provides services over the full term of these contracts. The by-quarter breakdown of these sales announcements are reproduced here as they were at the time of the disclosure. FLYHT has not attempted to identify any impediments to the fulfillment of these contracts as a result of any subsequent events after these disclosures.

Fourth Quarter

New sales contracts and purchase orders of US\$6.5 million were secured in Q4 2019, including:

- A US\$6.2 million contract with WestJet to install AFIRS on the airline's fleet of Boeing 737 aircraft
- Expanded presence in Asia and Oceania by securing a two-year contract to supply FLYHTVoice, FLYHTLog and FLYHTHealth to an operator based in Kazakhstan and by selling two additional AFIRS kits to an airline based in Papua New Guinea
- An amendment to the contract to supply Aircraft Meteorological Data Relay (AMDAR) weather data to Environment and Climate Change Canada in the Canadian government (original contract: press release Sept 18, 2019), thereby expanding FLYHT's weather-related revenue streams

Third Quarter

During the third quarter of 2019, the Company secured an aggregate of US\$1.0 million in sales contracts and purchase orders, including:

- A purchase order from Azur Havaş A.Ş (Azur Aviation), an existing customer, to install five AFIRS kits on their Boeing 777 fleet to enable FLYHTVoice, FLYHTLog and FLYHTASD. After completion of this order, FLYHT will have installed AFIRS kits throughout the entire Azur fleet of Boeing 737 Next Gen's, Boeing 757's, Boeing 767's, and Boeing 777 aircraft.
- A purchase order from Avmax Chad to enable three aircraft with FLYHTVoice, FLYHTASD, and FLYHTHealth.
- A purchase order from an existing North American charter operator customer for one additional AFIRS kit as well as FLYHTVoice, FLYHTLog and FLYHTFuel.

1. <https://www.iata.org/en/pressroom/pr/2020-02-06-01/>

2. <https://www.iata.org/en/pressroom/pr/2020-02-05-01/>

3. <https://www.airbus.com/newsroom/press-releases/en/2020/01/airbus-delivers-strong-2019-commercial-aircraft-performance.html>

4. <https://boeing.mediaroom.com/2020-01-14-Boeing-Announces-Fourth-Quarter-Deliveries>

5. <https://markets.businessinsider.com/news/stocks/embraer-s-a-embraer-delivers-198-total-jets-in-2019-1028918487>

6. <https://www.ainonline.com/aviation-news/business-aviation/2020-01-16/bombardier-bizjet-deliveries-short-target>

7. <https://tradingeconomics.com/canada/currency>

- A purchase order from an international aircraft manufacturer for AFIRS to perform integration and certification as the Satcom option for future aircraft deliveries.
- A purchase order from a current Chinese cargo carrier customer for three additional AFIRS aircraft kits.
- A purchase order from a current Chinese airline customer for one additional AFIRS kit.
- A purchase order for technical services from an Asia-Pacific airline and modems from an original equipment supplier partner.

Second Quarter

Sales contracts and purchase orders secured during the second quarter of 2019, totaled US \$3.0 million, including:

- A five-year contract renewal with a Middle East cargo/shipping operator, which provides the operator with continued access to FLYHTLog and FLYHTHealth and expands the previous contract to include FLYHTFuel
- A purchase order from a current Chinese carrier customer for an additional AFIRS aircraft kit, and an expansion of a software as a service (SaaS) contract with a separate Chinese carrier
- An order for an additional AFIRS kit from an existing aircraft leasing company customer
- An agreement with the Uganda National Airlines Company to install AFIRS on four of its aircraft

First Quarter

During the first quarter of 2019, FLYHT secured an aggregate of US\$2.47 million in sales contracts and purchase orders, including:

- A new African customer for UpTime data services including FLYHTLog, FLYHTHealth and FLYHTASD. This customer has received leased aircraft with AFIRS already installed and has enabled these services through a service contract.
- Contract renewals with two existing customers, one operating in North America and one in the Middle East
- Sales of AFIRS hardware kits to two existing operators in China and one in Africa
- Services or spare parts to a meteorological agency, an African operator and an Asian-Pacific operator
- Orders from existing customer Azur Aviation who signed a contract for US \$740,000 for AFIRS units to meet Future Air Navigation System (FANS) regulatory requirements

Achievements & Activities

FLYHT accomplished several achievements which were identified throughout the year. This section identifies these successes by quarter. Total AFIRS or FlightLink units shipped by FLYHT increased to 2,668 as of December 31, 2019 compared to 2,241 units at the same time last year.

Fourth Quarter

- Issued the Company's first FAA Form 8130-3 for airworthiness approval of an AFIRS unit out of Littleton, CO in November 2019. This Authorized Release Certificate attests that AFIRS units manufactured in the Littleton facility under 14 CFR part 21, conform to their design and are in a condition for safe operation as defined by the FAA.
- Successfully closed CAD\$6.7 million private placement to diversify FLYHT's product offering, expand sales and marketing efforts, and fund general working capital (see press releases November 15 and November 25, 2019).

Third Quarter

- Reported a sales order backlog of more than \$50 million*
- Successfully completed the integration of PWS assets, known as the “OneFLYHT” Program, which were acquired in October 2018.
- Announced the appointment of Captain Mary I. McMillan to the Company’s Board of Directors
- Expanded a licensing agreement with L3Harris Technologies to customize the AFIRS 228S for use as the Satcom option on the Airbus A220 family of aircraft; expanding the agreement which previously established L3Harris’ AFIRS 228S as the Satcom option for the Airbus A320 and A330 families.
- Received the Chinese Validation of our newest FAA Airbus A320 AFIRS STC which includes all models of the A320 family, including the “New Engine Option” (NEO). FLYHT also received FAA validation of our Transport Canada STC for the Bombardier Q400.

Second Quarter

- Received Parts Manufacturer Approval (PMA) from the Federal Aviation Administration (FAA) to manufacture the AFIRS family of products within the United States. Currently, the Company manufactures AFIRS products in Canada under authority granted by Transport Canada. This new FAA authorization enables the Company’s facilities in Calgary, AB and Littleton, CO to be more flexible in their production of aircraft parts.
- Continued progress in the “OneFLYHT” integration program, including:
 - Successful manufacture of the first TAMDAR sensor since acquiring the assets of Panasonic Weather Solutions in October 2018. The Company remains on target to begin shipping these products in the third quarter of this year.
 - Completion of AS9100D Quality Management Systems – Requirements for Aviation, Space and Defense Organizations re-certification for its Calgary facility. The Company remains on track to establish a multi-site certification, which would include both the Calgary and Littleton facilities, in the latter portion of 2019.
- Extended the May 2018 services agreement with Adelaide Capital Markets Inc. for a second term of 12 months.

First Quarter

- Appointed seasoned aviation executive Nina Jonsson to the FLYHT Board of Directors
- Relocated CEO Thomas R. Schmutz’s office to Littleton, CO; FLYHT’s headquarters remain in Calgary, Canada
- Augmented the Company’s investor relations strategy by the engagement of Liolios (Gateway Group Inc.) to expand focus and outreach on U.S. markets
- The following STC’s were issued to FLYHT in Q1 2019:
 - State Aviation Administration of Ukraine (SAAU) for the Boeing 737-300/400/500/700/800
 - State Aviation Administration of Ukraine (SAAU) for the Boeing 767-300; and
 - STC Validation (STCV) from the Egyptian Civil Aviation Authority (ECAA) for the Airbus A319-100 Series, A320-200 Series and A321-100/-200 Series

Sales order backlog is the sum of purchase orders and contracts for all unrecognized technical services, licenses, hardware and the future value of contracted SaaS products. These signed contracts or purchase orders have been previously announced in various press releases. Backlog value for contracts deemed unlikely to manifest is removed. Twelve months of SaaS product value is included in backlog if a customer is currently paying for SaaS products under a contract that has exceeded its original term and is auto-renewing annually for subsequent one-year terms. The sales order backlog value assumes that FLYHT provides hardware and services over the full scope and term of the constituent contracts.

On average, there are 23 months remaining in the SaaS contracts that are included in backlog as of December 31, 2019. The timing of recognition of the Hardware component of sales order backlog is dependent on customer schedules that are subject to change. The majority of the aircraft contributing toward Hardware sales order backlog have been agreed to in contracts with initial terms of five years, with customers anticipating installation to occur typically within the first half of that contract term. The risks involved in this revenue stream are further discussed in the ‘Risks and Uncertainties > Installations at c-checks’ section of this management discussion and analysis.

Results of Operations

Selected Results

2019	Q4 \$	Q3 \$	Q2 \$	Q1 \$
Assets	14,736,226	11,529,110	10,988,820	12,177,007
Non-current financial liabilities	4,618,014	4,685,813	4,862,450	5,532,865
Revenue	4,281,612	5,197,446	6,350,349	5,341,752
Cost of sales	1,595,421	2,674,856	2,141,376	2,432,704
Gross margin	2,686,191	2,522,590	4,208,973	2,909,048
Gross margin %	62.7%	48.5%	66.3%	54.5%
Distribution expenses	1,992,477	1,941,927	2,294,519	2,066,846
Administration expenses	1,199,149	941,060	1,118,420	955,290
Research, development and certification engineering expenses	1,100,961	939,935	1,020,747	707,871
Results from operating activities	(1,606,396)	(1,300,332)	(224,713)	(820,959)
Depreciation	253,614	215,881	191,591	180,332
Other income	641,296	623,544	1,544,756	1,316,977
EBITDA*	(711,486)	(460,907)	1,511,634	676,350
Income (loss)	(1,212,971)	(777,648)	1,037,326	206,658
Income (loss) per share (basic)	(0.06)	(0.04)	0.05	0.01
Income (loss) per share (fully diluted)	(0.06)	(0.04)	0.05	0.01
2018	Q4 \$	Q3 \$	Q2 \$	Q1 \$
Assets	9,097,270	6,401,513	5,105,186	5,711,684
Non-current financial liabilities	4,420,714	4,385,051	2,246,731	2,117,334
Revenue	4,033,826	3,092,113	3,146,266	3,318,311
Cost of sales	1,775,657	1,344,643	1,075,402	1,328,994
Gross margin	2,258,169	1,747,470	2,070,864	1,989,317
Gross margin %	56.0%	56.5%	65.8%	59.9%
Distribution expenses	2,075,217	1,395,475	1,281,935	1,240,609
Administration expenses	1,258,097	780,899	682,575	530,037
Research, development and certification engineering expenses	789,203	398,275	704,731	739,236
Results from operating activities	(1,864,348)	(827,179)	(598,377)	(520,565)
Depreciation	57,143	34,624	36,588	33,134
Other income	1,861,050	-	-	-
EBITDA*	53,845	(792,555)	(561,789)	(487,431)
Income (loss)	217,954	(953,034)	(649,293)	(582,375)
Income (loss) per share (basic)	0.01	(0.04)	(0.03)	(0.03)
Income (loss) per share (fully diluted)	0.01	(0.04)	(0.03)	(0.03)

*See Non-GAAP Financial Measures

Weighted Average Shares Outstanding

	2019 \$	2018 \$	2017 \$
Basic	21,861,196	21,058,855	20,926,589
Diluted	22,028,060	21,132,875	20,926,589

Financial Position

Liquidity and Capital Resource

The Company's cash and cash equivalents at December 31, 2019 increased to \$4,127,648 from \$2,406,769 at December 31, 2018. The Company has an operating demand loan available through a Canadian chartered bank for up to a maximum of \$1.5 million CAD or 90% of the Company's receivable balance, drawn either in CAD or USD. The operating demand loan bears interest at the Canadian chartered bank prime plus 1.5% (CAD) or US prime plus 4.5% (USD). Security includes specific accounts receivable, a guarantee under the Export Development Canada's Export Guarantee Fund and a general security agreement including a security interest in all personal property. This facility was undrawn as at December 31, 2019.

On November 15, 2019, the Company closed the first tranche of a private placement, issuing 4,792,400 units for gross proceeds of \$5,990,500, with the second and final tranche, consisting of 542,820 units for gross proceeds of \$678,525, closing on November 25, 2019. Each unit consisted of one common share and one-half of one share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share of the Company for a period of 24 months from the issuance of the units at a price of \$1.75. Agents were paid a cash commission of 7% of the gross proceeds. A total of 335,468 agent warrants were also issued, each exercisable into one common share at \$1.25 per unit within 24 months from the closing date. A corporate finance fee of \$45,000 was also paid, together with 35,000 corporate finance warrants, each exercisable into one common share at a price of \$1.25 for a period of 24 months. All common shares and warrants issued pursuant to the private placement were subject to a 4-month hold period.

Of the total proceeds received, \$1,115,506 net of transaction costs of \$160,970, was allocated to the warrants issued, with the remaining \$5,553,519 net of transactions costs of \$801,384, being allocated to the shares issued.

At December 31, 2019, the Company had positive working capital of \$7,324,479 compared to positive \$2,878,024 as of December 31, 2018, an increase of \$4,446,455.

The Company funded 2019 operations primarily through the proceeds from the November 2019 private placement, cash received from sales, contributions from the Western Innovation Initiative (WINN), and subsidies paid by PAC from the October 2018 asset acquisition. The Company will receive a final subsidy amount from PAC in Q1 2020 and will strive to self-fund operations through the remainder of 2020.

	2019 \$	2018* \$	Variance \$
Cash and cash equivalents	4,127,648	2,406,769	1,720,879
Trade and other receivables	4,980,405	3,440,767	1,539,638
Contract assets	256,125	395,695	(139,570)
Deposits and prepaid expenses	797,759	227,065	570,694
Inventory	1,672,068	1,066,946	605,122
Trade payables and accrued liabilities	(2,346,560)	(2,342,754)	(3,806)
Customer deposits	(160,706)	(661,833)	501,127
Contract liabilities	(658,655)	(1,524,894)	866,239
Loans and borrowings	(718,015)	(129,465)	(588,550)
Lease liability	(625,590)	-	(625,590)
Current tax liabilities	-	(272)	272
Working capital*	7,324,479	2,878,024	4,446,455

*See Non-GAAP Financial Measures

In 2019 there were no share issuances resulting from the exercise of warrants nor options. There were 250,491 shares upon conversion of debentures.

As at April 8, 2020 FLYHT's issued and outstanding share capital was 26,663,861.

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. Additionally, the acquisition of PWS provided the Company the opportunity to realize efficiencies of scale through increasing both service and hardware revenues.

It is the Company's intention to continue to fund operations by adding revenue and its resulting cash flow as well as continue to manage outgoing cash flows. At December 31, 2019, the Company had positive working capital of \$7,324,479 compared to positive \$2,878,024 as of December 31, 2018, an increase of \$4,446,455. The Company ended 2019 with balances of \$4.1 million in cash and cash equivalents, an undrawn credit facility of \$1.5 million, and \$2.6 million in contributions under WINN loans not yet received. The Company's operating results and cash flows from operations are negative in both 2019 and 2018.

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, expected to result in additional contracts for delivery of hardware units and related services. Additionally, the acquisition of PWS provides the Company the opportunity to realize efficiencies of scale through increasing both service and hardware revenues.

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 global airline industry has been significantly impacted by the consequences of the global COVID-19 worldwide outbreak. The reduction in the number of flights may impact the amount of SaaS revenue generated by the Company, while deferred and/or lower investments in airplanes may negatively impact the Company's hardware and license revenues. This situation may also impact the Company's ability to obtain financing.

There is no assurance that the Company will be successful in attaining and sustaining profitable operations and positive cash flow and/or raising additional capital to meet its capital requirements. If the Company is unable to satisfy its working capital requirements from these sources, the Company's ability to continue as a going concern and to achieve its intended business objectives will be adversely affected. These material uncertainties may cast doubt upon the Company's ability to continue as a going concern. The consolidated financial statements do not reflect adjustments that would otherwise be necessary if the going concern assumption was not valid, such as revaluation to liquidation values and reclassification of statement of financial position items.

Financial Instruments

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

The Company may be exposed to changes in interest rates as a result of the operating loan bearing interest based on the Company's lenders' prime rate.

There is a credit risk associated with accounts receivable where the customer fails to pay invoices. The Company extends credit to credit-worthy or well-established customers. In the case of Hardware sales, the invoiced amount is frequently payable before the product is shipped to the customer. The Company assesses the financial risk of a customer and based on that analysis may require that a deposit payment be made before services are provided. To further minimize credit exposure, credit insurance is obtained on select customers whose balances have not been prepaid. In the case of monthly recurring revenue, the Company has the ability to disable the AFIRS unit transmissions where the customer has not fulfilled its financial obligations.

Contractual Obligations

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

December 31, 2019	< 2 months \$	2-12 months \$	1-2 years \$	2-5 years \$	> 5 years \$	Total \$
Accounts payable	1,800,915	11,033	-	-	-	1,811,948
Compensation and statutory deductions	59,429	363,349	-	-	-	422,778
Accrued liabilities	33,076	78,758	-	-	-	111,834
Lease payments	154,930	470,660	426,569	114,596	-	1,166,755
Loans and borrowings	117,000	603,769	2,593,969	2,203,494	1,585,047	7,103,279
Total	2,165,350	1,527,569	3,020,538	2,318,090	1,585,047	10,616,594

Under the Strategic Aerospace and Defence Initiative (SADI), the Company has, at December 31, 2019, an outstanding repayable balance of \$1,370,247, compared to \$1,507,481 at December 31, 2018. 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 April 30, 2028 when the final payment will be 24.5% of the total contribution received. Amounts repaid in 2019 totaled \$137,234 (2018: \$119,333).

In November 2016, the Company signed a contribution agreement with Western Economic Diversification Canada for a Western Innovation initiative (WINN) loan, to support plans for technology development in the air and ground components of the Company's products. Under the terms of the agreement, a repayable unsecured WINN contribution to the value of the lesser of 50% of the eligible project costs to March 31, 2019 or \$2,350,000 will be received. The amount is repayable over five years commencing January 1, 2020. At December 31, 2019, the Company had received contributions totaling \$2,350,000 (2018: \$2,137,202).

In November 2018, the Company signed a second contribution agreement with Western Economic Diversification Canada for a Western Innovation initiative (WINN) loan, to support development of the next generation of AFIRS hardware and embedded software to address parts obsolescence issues and add new market-driven features. Under the terms of the agreement, a repayable unsecured WINN contribution to the value of the lesser of 44% of the eligible project costs to April 30, 2021 or \$2,761,000 will be received. A March 31, 2019 amendment adjusted the end date for eligible project costs to September 30, 2021. The amount is repayable over five years commencing October 1, 2021. At December 31, 2019, the Company had received contributions totaling \$163,782 (2018: nil).

A summary of the carrying value of the SADI and WINN loans as at December 31, 2019 and 2018 and changes during these years is presented below.

	2019 \$		2018 \$	
	SADI	WINN	SADI	WINN
Balance January 1	1,252,743	1,569,663	1,162,679	792,338
Received	-	376,580	-	1,056,544
Grant portion	-	(114,605)	-	(391,697)
Interest accretion	224,753	171,597	209,397	112,478
Repayment	(137,234)	-	(119,333)	-
Balance December 31	1,340,262	2,003,235	1,252,743	1,569,663
Less current portion	151,750	439,899	129,465	-
Non-current portion	1,188,512	1,563,336	1,123,278	1,569,663

Convertible Debenture

The Debentures were issued on July 24, 2018 and will mature on July 24, 2021 (if not converted prior to expiry) and bears interest at a rate of 8% per annum, which is accrued and paid annually in arrears. The Debentures are convertible at the option of the debenture holder into common shares of FLYHT (Common Shares) at a conversion rate of \$1.30 per share at any time prior to maturity, subject to a forced conversion (at a conversion rate of \$1.30 per share) into Common Shares should the closing price of the Company's Common Shares be equal to or exceed \$1.80 for 20 consecutive trading days.

769,200 warrants (Warrants) were issued to the purchasers of the Debentures (for every \$1.00 principal amount of Debentures acquired pursuant to the offering, Debenture holders received approximately 0.3846 Warrants). Each whole Warrant is exercisable to acquire one Common Share of FLYHT for a period of two (2) years from the date of issuance at an exercise price of \$1.45 per share. The Warrants are subject to an acceleration clause, whereby, if after four months and one day following the date the Warrants are issued, the closing price of the Company's Common Shares is equal to or exceeds \$1.90 for 20 consecutive trading days (with the 20th such trading date hereafter referred to as the "Eligible Acceleration Date"), the Warrant expiry date shall accelerate to the date which is 30 calendar days following the date a press release is issued by the Company announcing the reduced warrant term, provided, no more than five business days following the Eligible Acceleration Date: (i) the press release is issued; and (ii) notices are sent to all warrant holders.

The Debentures are secured against all personal property of the Company and are subordinated in right of payment to all existing and future secured bank and/or governmental indebtedness of the Company and any existing security already registered against FLYHT's assets.

A summary of the carrying value of the debenture as at December 31, 2019 and changes during the year is presented below.

	2019 \$	2018 \$
Balance January 1	1,727,773	-
Proceeds on issue	-	1,950,000
Transaction costs allocated	-	(84,376)
Net proceeds	-	1,865,624
Amount classified as equity (net of transactions costs)	-	(257,984)
Interest payments	(133,949)	-
Conversions	(315,166)	-
Accrued interest	256,780	120,133
Balance December 31	1,535,438	1,727,773

Contract Liabilities - Customer Deposits

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

The chart below outlines the movement in the Company's customer deposits throughout the periods ending December 31, 2019 and 2018. Prepayment was received for 12 installation kits in the fourth quarter of 2019 compared to 8 received in the fourth quarter of 2018, bringing 2019 year-to-date ("YTD") total payments for installation kits to 91, compared to a total of 74 in 2018.

	Q4 2019 \$	Q4 2018 \$	Variance \$	YTD 2019 \$	YTD 2018 \$	Variance \$
Opening balance	215,611	925,225	(709,614)	661,833	1,687,971	(1,026,138)
Payments received	568,212	1,961,212	(1,393,000)	3,931,575	4,820,111	(888,536)
Recognized as revenue	(623,117)	(2,224,604)	1,601,487	(4,432,702)	(5,846,249)	1,413,547
Balance, December 31	160,706	661,833	(501,127)	160,706	661,833	(501,127)

Comprehensive Income

Revenue

Software as a Service (**SaaS**) is the recurring revenue from the Company's products that allow customers to utilize and analyze data they receive from hardware, use of functions such as the satellite phone and the sale of weather data from TAMDAR units. These usage fees are recognized as the service is provided based on actual customer usage each month. **Hardware** includes the income from hardware sales and related parts required to install the unit, spare units, spare installation parts, and Underfloor Stowage Units. **Licensing** includes sales of modems with a related manufacturing license fee. Effective in 2019, this category also includes a license for exclusive access to weather data sets. **Technical Services** includes all services offered by the Company, including repairs and other expertise.

Revenue sources

	Q4 2019 \$	Q4 2018 \$	Variance \$	YTD 2019 \$	YTD 2018 \$	Variance \$
SaaS	2,711,228	2,261,211	450,017	10,246,685	5,528,822	4,717,863
Hardware	657,577	1,464,475	(806,898)	6,651,673	5,536,687	1,114,986
Licensing	772,466	249,833	522,633	3,241,285	2,265,262	976,023
Technical Services	140,341	58,307	82,034	1,031,516	259,745	771,771
Total	4,281,612	4,033,826	247,786	21,171,159	13,590,516	7,580,643

Overall, total revenue increased 55.8% from \$13,590,516 in 2018 to \$21,171,159 in 2019. Revenue increased in all four categories: SaaS revenues increased by 85.3%, Hardware increased by 20.1%, Licensing increased by 43.1%, and Technical Services revenue increased by 297.1%.

SaaS Recurring revenue accounted for 63.3% of revenue in Q4 2019 (Q4 2018: 56.1%), and 48.4% YTD 2019 (YTD 2018: 40.7%). A large portion of the increase in SaaS from 2018 – 2019 is due to the acquisition of customer contracts from PAC in October 2018, however there has also been organic growth when comparing Q4 2018 to Q4 2019.

Hardware sales increased in 2019 as compared to 2018 due to an increased number of installation kits being shipped, particularly in the first half of 2019. A total of 133 installation kits were shipped in 2019, compared to 99 in 2018.

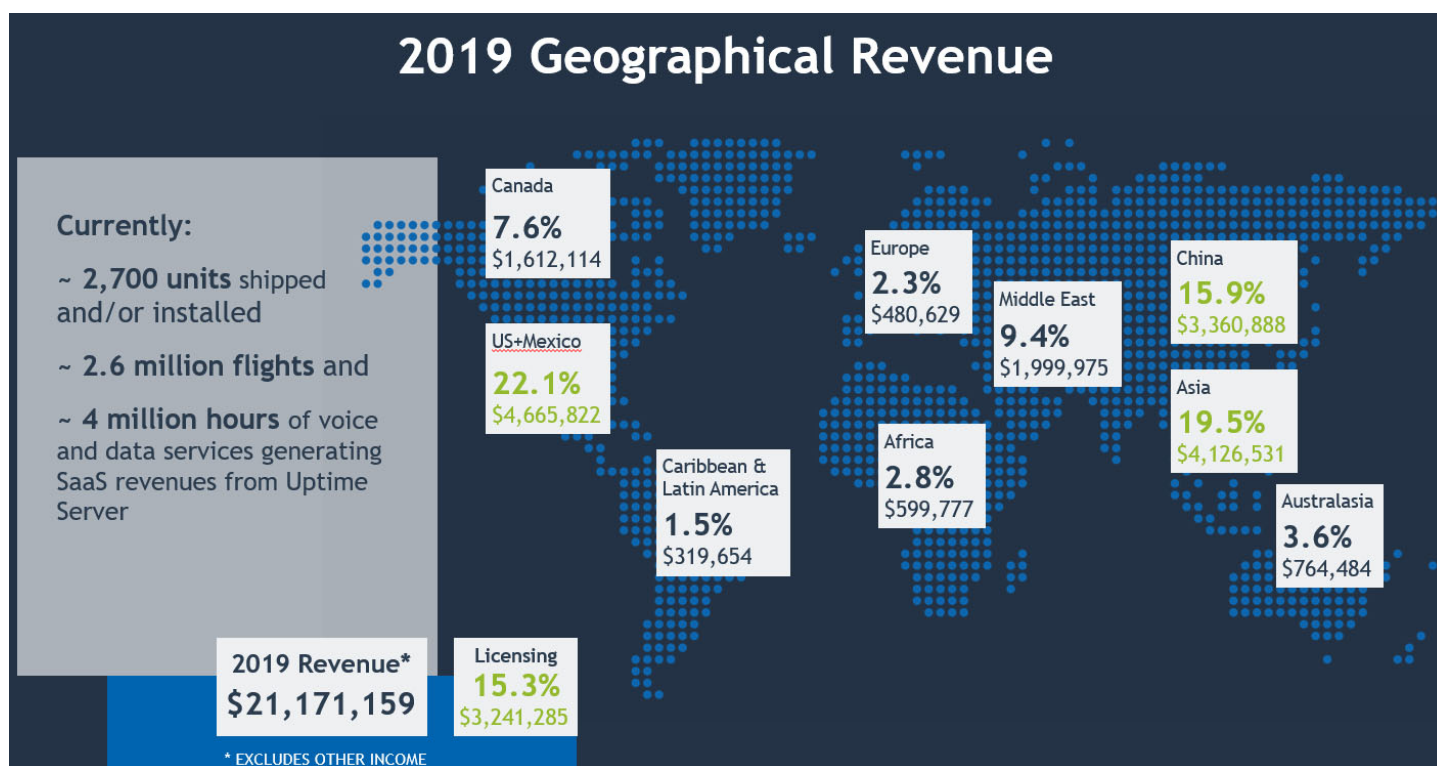
Licensing increased both in the quarter and YTD in 2019 from 2018 due to differences in the number of modems with related license fees shipped.

Technical Services revenue increased both in the quarter and YTD. This revenue category can be expected to vary significantly between periods and years, depending on the level of technical services provided to customers in the period.

Revenue sources for the last eight quarters were:

	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018
SaaS	2,711,228	2,649,345	2,480,880	2,405,232	2,261,211	1,145,368	1,079,214	1,043,030
Hardware	657,577	1,864,523	1,754,672	2,374,901	1,464,475	1,651,592	854,350	1,566,270
Licensing	772,466	589,546	1,501,513	377,760	249,833	265,492	1,122,974	626,962
Technical Services	140,341	94,032	613,284	183,859	58,307	29,661	89,728	82,049
Total	4,281,612	5,197,446	6,350,349	5,341,752	4,033,826	3,092,113	3,146,266	3,318,311

	Q4 2019 \$	Q4 2018 \$	YTD 2019 \$	YTD 2018 \$
United States & Mexico	1,963,440	1,355,882	7,907,107	4,099,732
Asia	858,485	320,919	4,126,531	403,110
China	466,239	1,014,914	3,360,888	2,677,686
Middle East	179,083	197,492	1,999,975	1,794,439
Canada	260,191	396,377	1,612,114	1,922,368
Australia	275,396	159,429	764,484	646,989
Africa	146,683	255,776	599,777	588,473
Europe	53,360	86,676	480,629	797,712
South/Central America	78,735	246,361	319,654	660,007
Total	4,281,612	4,033,826	21,171,159	13,590,516



Gross Profit and Cost of Sales

FLYHT's cost of sales includes the direct costs associated with specific revenue types, including the hardware unit, installation kits, training and installation support, as well as associated shipping expenses and travel expenses for the Company's engineering personnel while performing on-site installation support. Installations on aircraft are performed by third parties at the customer's expense. Cost of sales as a percentage of revenue in the fourth quarter of 2019 was 37.3% compared to 44.0% in 2018's fourth quarter. A review of the annual results shows the cost of sales as a percentage of revenue also increased from 40.7% in 2018 to 41.8% in 2019. The decrease in gross margin was due to differences in the mix of revenue sources in 2019 versus 2018. Gross margin will fluctuate quarter over quarter depending on customer needs and revenue mix.

Gross margin for the last eight quarters was:

	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018
Gross Margin %	62.7	48.5	66.3	54.5	56.0	56.5	65.8	59.9
Cost of Sales	37.3	51.5	33.7	45.5	44.0	43.5	34.2	40.1

Distribution Expenses

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

Major Category	Q4 2019 \$	Q4 2018 \$	Variance \$	YTD 2019 \$	YTD 2018 \$	Variance \$
Salaries and benefits	1,200,751	1,435,259	(234,508)	5,889,166	3,592,664	2,296,502
Share based compensation	8,825	6,093	2,732	38,346	40,068	(1,722)
Contract labour	175,557	163,901	11,656	637,992	725,677	(87,685)
Office	49,324	134,483	(85,159)	223,896	402,191	(178,295)
Travel	124,853	179,903	(55,050)	566,700	647,515	(80,815)
Equipment and maintenance	12,101	17,330	(5,229)	59,132	190,470	(131,338)
Depreciation	122,211	13,685	108,526	527,994	37,641	490,353
Marketing	53,962	26,415	27,547	116,703	165,615	(48,912)
Other	244,893	98,148	146,745	235,840	191,395	44,445
Total	1,992,477	2,075,217	(82,740)	8,295,769	5,993,236	2,302,533

Distribution expenses increased 38.4% from 2018 to 2019, due mainly to increased people costs.

Salaries and benefits have increased in the due to the addition of staff in Q4 2018 with the acquisition of PWS.

Equipment and maintenance expenses have decreased YTD as a one-time payment required for a licensing agreement in 2018 did not recur.

Depreciation expense was higher and **Office** expense has decreased throughout 2019 compared to 2018 resulting from the January 1, 2019 implementation of IFRS 16 which moved the expenses of our leased asset costs from office expense to depreciation.

Other expense reflects differences in bad debt reserve both in Q4 and YTD 2019.

Administration Expenses

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

Major Category	Q4 2019 \$	Q4 2018 \$	Variance \$	YTD 2019 \$	YTD 2018 \$	Variance \$
Salaries and benefits	587,543	527,278	60,265	2,004,409	1,457,388	547,021
Share based compensation	22,141	156,112	(133,971)	101,328	190,209	(88,881)
Contract labour	93,073	123,394	(30,321)	399,400	289,983	109,417
Office	132,054	119,363	12,691	475,049	376,094	98,955
Legal fees	3,920	53,029	(49,109)	39,700	195,143	(155,443)
Audit and accounting	62,861	71,627	(8,766)	293,823	197,852	95,971
Investor relations	58,014	45,570	12,444	210,772	149,071	61,701
Travel	70,071	44,283	25,788	225,769	120,297	105,472
Equipment and maintenance	56,289	73,298	(17,009)	213,973	166,179	47,794
Depreciation	96,374	27,570	68,804	181,564	80,381	101,183
Other	16,809	16,573	236	68,132	29,011	39,121
Total	1,119,149	1,258,097	(58,948)	4,213,919	3,251,608	962,311

Administration expenses increased by 29.6% from 2018 to 2019.

Salaries and benefits have increased in the quarter due to the addition of PWS staff in Q4 2018.

Contract labour increased due to the addition of IT resources for our US location and increased coverage to support investor relations.

Legal fees have decreased as year-to-date 2018 contained costs related to the asset acquisition and **Audit and accounting** have increased due to the changing review and support requirements resulting from the acquisition.

Travel expenses have increased over 2018 both in the quarter and YTD, due to activities relating to the integration of PWS assets and the resulting increase in travel between the Company's two locations.

Research, Development and Certification Engineering Expenses (Recovery)

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

Major Category	Q4 2019 \$	Q4 2018 \$	Variance \$	YTD 2019 \$	YTD 2018 \$	Variance \$
Salaries and benefits	931,011	715,446	215,565	3,203,141	2,443,060	760,081
Share based compensation	3,707	3,003	704	13,889	8,008	5,881
Contract labour	115,326	54,978	60,348	255,994	225,529	30,465
Office	42,443	30,618	11,825	144,770	79,263	65,507
Travel	10,946	21,242	(10,296)	103,357	75,196	28,161
Equipment and maintenance	2,885	10,632	(7,747)	13,297	69,733	(56,436)
Components	(30,222)	23,273	(53,495)	16,904	77,399	(60,495)
Depreciation	35,067	15,838	19,229	131,860	43,437	88,423
Government grants	(10,819)	(85,851)	75,032	(114,605)	(391,697)	277,092
Other	617	24	593	907	1,517	(610)
Total	1,100,961	789,203	311,758	3,769,514	2,631,445	1,138,069

Research and Development expenses were 43.2% higher in 2019 compared to the prior year. The main contributors to the increase were increased people costs and a lower level of government grants received. Research and development costs vary according to specific project requirements.

Salaries and benefits expense increased in 2019 as a result of increased staffing levels and increased R&D-type project activities.

A decrease in the amount of **Government grants** received was due to differences in expenses eligible for funding under the WINN program in 2019 versus 2018. The recoveries shown are the portion of funds received from WINN that have been accounted for as a grant.

Net Finance Costs

Major Category	Q4 2019 \$	Q4 2018 \$	Variance \$	YTD 2019 \$	YTD 2018 \$	Variance \$
Interest (income)	(13,290)	(7,712)	(5,578)	(29,810)	(16,628)	(13,182)
Net foreign exchange loss (gain)	65,962	(139,411)	205,373	172,495	(189,971)	362,466
Bank service charges	7,786	6,973	813	29,942	26,849	3,093
Interest expense	21,225	174	21,051	95,050	2,719	92,331
Government loan accretion	105,147	89,731	15,416	396,351	321,875	74,476
Debenture interest and accretion	61,037	79,854	(18,817)	256,780	120,132	136,648
Net finance costs	247,867	29,609	218,258	920,808	264,976	655,832

Net foreign exchange loss (gain) will vary between periods due to fluctuations in the value of the Canadian dollar in relation to the U.S. dollar. A YTD strengthening of the Canadian dollar has given rise to foreign exchange losses in 2019 versus gains in 2018 on U.S. dollar denominated sales and purchases, in combination with fluctuations in U.S. denominated assets and liabilities.

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

Debenture interest and accretion is the recognition of the effective interest on the liability portion of the debenture and the amortization of the issuance cost.

Net Loss

Major Category	Q4 2019 \$	Q4 2018 \$	Variance \$	YTD 2019 \$	YTD 2018 \$	Variance \$
Net income (loss)	(1,212,971)	217,954	(1,430,925)	(746,635)	(1,966,748)	1,220,113

Foreign Exchange

All international and a majority of domestic sales of the Company's products and services are denominated in U.S. dollars. Accordingly, the Company is susceptible to foreign exchange fluctuations. In 2019, 99% of the Company's gross sales were made in U.S. dollars, unchanged from 2018. The Company expects this to continue as the aviation industry conducts the majority of its transactions in U.S. dollars, thus limiting the opportunity for sales in Canadian dollars or other major currencies. The Company also contracts in U.S. dollars for certain services and products related to cost of sales, which creates a natural hedge.

Other

Recent Accounting Pronouncements

The Company adopted IFRS 16 *Leases*, effective January 1, 2019. IFRS 16 introduced a single, on-balance sheet accounting model for lessees. As a result, the Company recognized right-of-use assets for an amount of \$1,548,834, representing its rights to use the underlying assets and the same amount of lease liabilities representing its obligation to make lease payments. The Company applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings at January 1, 2019. Accordingly, the comparative information presented for 2018 has not been restated.

Risks and Uncertainties

FLYHT operates in the aviation industry and part of the business involves risks and uncertainties. The Company takes steps to manage these risks, though it is important to identify risks that could have a material effect on business or results of operations. Such risks are listed below; the areas defined are not inclusive.

Impact of COVID-19 to Commercial Air Industry

As outlined in the subsequent event section and in other areas of this financial report, the negative impact to the commercial air industry by the COVID-19 pandemic is unprecedented. FLYHT expects to see near and intermediate term risk in all aspects of revenue and payment due to the impact of the pandemic on our customers. This risk will also imperil FLYHT's cashflows until such a time as the industry recovers. There exists a possibility that an extended industry recovery could cause FLYHT to dramatically diminish the scale of its operations and, in the limit, become illiquid.

Installations at c-checks

The Company's products, AFIRS 228, FlightLink and TAMDAR, can take approximately 150-200 person-hours to install on an aircraft, depending on the product, aircraft type and installation crew. Since the installation period is non-trivial, the installation is usually scheduled when the aircraft is undergoing its routine c-check or scheduled maintenance. The timing of c-checks depends on how many segments the aircraft has flown and is based on the manufacturer's guidelines; it can take as long as two or three years before an aircraft is out of service for an extended period, though most aircraft are available annually. The timing of a c-check for hardware installation is an uncertainty to the Company because it results in a delay in initial revenue from the sale of the box and the Company does not receive recurring revenue connected with the monthly service offerings until the hardware components are installed and running.

The Company takes steps to mitigate this uncertainty by encouraging customers to install hardware at their aircraft's earliest availability and works with them to provide the product at the right time for installation, preferably while the aircraft is down for normal service. The goal is to reduce aircraft downtime and save the customer as much money as possible. The Company also offers special discounts for upfront payment for all units as another mitigation tool. This discount decreases FLYHT's gross margin slightly when revenue is recognized but allows the Company to receive cash immediately after signing an agreement. As well, the terms of the Company's standard agreement states that payment is due a minimum of 45 days prior to the shipment of kits.

Enterprise Network Risks

The Company currently operates several different types of networks to provide its SaaS products to our customer base. Uptime Classic services many of FLYHT's early adopters and is implemented on redundant fixed server platforms in Canada. Uptime Cloud services many of FLYHT's newer AFIRS customers and is implemented in Amazon Web Services (AWS) equipment in the United States and China. The AirMap suite is operated on fixed equipment in a hosting center in the United States. Part of FLYHT's agreement with Panasonic Avionics Corporation will result in the AirMap suit being ported to AWS at no cost to FLYHT. This is a non-trivial technology transfer and it is possible that disruption in the task could impact exiting customers and negatively impact FLYHT's relationship with these clients. It is FLYHT's longer term goal to migrate all customers and services onto a common AWS platform and reduce the number of systems, increasing efficiencies and reducing costs.

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 test the penetrability of the systems according to best practices within the enterprise community. A security breach could expose our customer data to external, unauthorized third parties and create a breach in our contracts with our customers. To date, no such breach has knowingly occurred on any of these systems. FLYHT will continue to monitor and improve our solutions. In particular, the hosting of our solutions on AWS brings with it the benefits of taking advantage of state of the art security provisions which are introduced on that platform with great velocity

Foreign currency fluctuations

The Company realizes a majority of its sales in U.S. dollars so there is a risk of currency fluctuation. The major portion of the operating and overhead costs are denominated in Canadian dollars, though certain payroll costs and a significant portion of costs of goods sold, marketing and distribution costs are U.S. dollar denominated, and therefore create a partial natural hedge against fluctuations of the Canadian dollar.

General economic and financial market conditions

In an industry, such as the aviation industry, finances are tied to global trends and patterns. As an airline's spending is tied to their income, they may be unwilling or unable to spend money, particularly on a value-added product such as the Company offers.

To address this risk, the sales team has developed several strategies. One is a global sales presence. FLYHT has established sales agents responsible for every continent. While some economies of the world may be in a slump or downturn, we may find success for FLYHT in growing markets. FLYHT also demonstrates to potential customers the impressive return on investment model, how quickly potential customers can improve operational efficiency, and ultimately how much AFIRS will save them in operating cost.

Dependence on key personnel and consultants

FLYHT's ability to maintain its competency in the industry is dependent on maintaining a specialty skilled workforce. The Company's DAO status, delegated by TCCA, enables a smooth implementation of STCs, required to install AFIRS on aircraft. Key staff with TCCA delegation status enables the Company to complete STCs in a timely and cost-efficient manner. Similarly, the Company must interact with the FAA for its USA based STCs and PMA certifications. The Company has worked over the past few years to distribute the specified knowledge among several key individuals. This reduces risk and ensures the Company can still function effectively were it to lose specialized staff.

Dependence on new products

The Company has completed the development of the AFIRS 228, FlightLink and TAMDAR product lines and continues to build out its Supplemental Type Certificate portfolio. Continued success is dependent on the maintenance of these certifications and the sustaining engineering activities to maintain the manufacturability of the hardware. The bulk of the Company's development resources are engaged in the creation of new capabilities within the AirMap suite of applications of and UpTime Cloud. FLYHT is confident these products fill a gap in the industry, as evidenced by increasing sales of the AFIRS 228 these products throughout from 2013 to 2018. The Company's success will ultimately depend on the success of its products, and future enhancements made to them.

Revenues associated with TAMDAR

TAMDAR is currently installed and collecting weather data on approximately 250 aircrafts. FLYHT supplies this weather data to Synoptic Data DBC as part of their participation in the National Mesonet program. FLYHT is receiving revenues from Synoptic based upon this participation with a targeted number of observations. If these observations fall below an established number or if they are not perceived to have the original perceived value, then the existing payments for the TAMDAR data could be diminished or stop, depending upon a variety of factors including procurement changes from the United States Government. FLYHT attempts to mitigate these potential problems and potentially grow the revenues derived from TAMDAR by expanding the number of installed TAMDAR sensors and by investing in quality control programs to ensure that the sensors are properly calibrated and producing valid and valuable data.

Availability of key supplies

FLYHT services its products differently, depending on the product.

- The AFIRS 220 is no longer in production and all units are repaired in-house at FLYHT-Calgary. Certain parts can be delayed in shipping or availability, which can cause a delay in servicing the AFIRS 220. FLYHT aims to avoid the risk of not having the necessary supplies by managing inventories and storing extra key parts. Additionally, the Company maintains close communication with its partners and suppliers to ensure all key components for the AFIRS units will be available into the future.
- The AFIRS 228 units are built by a contract manufacturer. The Company relies on partners, suppliers and special parts to complete unit builds. Certain parts can be delayed in shipping or availability, which can cause a delay in servicing the AFIRS 220 or in receiving AFIRS 228 receiving completed units. FLYHT aims to avoid the risk of not having the necessary supplies by managing inventories and storing extra key parts. The contract manufacturer is a global supplier with the ability to meet FLYHT's requirements. Additionally, the Company maintains close communication with its partners and suppliers to ensure all key components for the AFIRS units will be available into the future. The AFIRS 228 is serviced in different ways; by the contract manufacturer, at FLYHT-Calgary or by our contract maintenance facility GAMECO in Guangzhou, China. Where a unit is repaired or serviced depends on a multitude of factors and is managed by FLYHT's customer support team.
- FlightLink and TAMDAR are assembled at FLYHT-Littleton using subassemblies that the company relies on from partners, suppliers and using special parts to complete unit builds. Certain parts can be delayed in shipping or availability, which can cause a delay in receiving assemblies for final units. FLYHT aims to avoid the risk of not having the necessary supplies by managing inventories and storing extra key parts. Additionally, the Company maintains close communication with its partners and suppliers to ensure all key components for the AFIRS units will be available into the future. FlightLink and TAMDAR are currently serviced by Panasonic owned maintenance and repair facilities in Washington State, USA and Singapore at no charge to FLYHT. This relationship can exist until March 31, 2020 at which time FLYHT may also create a Part 145 repair facility at FLYHT-Littleton. Whether FLYHT continues to use Panasonic repair facilities after March 31, 2020 is being evaluated at this time.

Proprietary protection

Patent rights are extremely important to the continuation of the Company because the AFIRS technology is the Company's primary revenue source. The Company relies on contract, copyright and trademark laws and has received patents from the United States, Chinese, Turkish and European patent offices. These patents are generally respected in other international jurisdictions as well. The risks involved with proprietary protection lie in other companies infringing on FLYHT patents or claiming patent infringement by FLYHT, though the Company has defended patent claims in court and been successful. FLYHT conducted due diligence on its technology and the conditions of its patent before applying and maintains that it holds unique characteristics from other technologies in the marketplace and does not infringe on the rights of any third parties.

In general, there are many risks associated with the pursuit, the prosecution, the ultimate receipt of and the enforceability or defense of patents. The scope of patent protection available to us in the United States and in other countries is uncertain. Changes in either the patent laws or their interpretation in the United States and other countries may diminish our ability to protect our inventions, obtain, maintain and enforce our intellectual property rights and, more generally, could affect the value of our intellectual property or narrow the scope of our owned patents.

The patent prosecution process is expensive, time-consuming, and complex, and we may not be able to file, prosecute, maintain, enforce, or license all necessary or desirable patent applications at a reasonable cost or in a timely manner. It is also possible that we will fail to identify patentable aspects of our research and development output in time to obtain patent protection.

The patent position of advanced technology companies generally is highly uncertain, involves complex legal and factual questions, and has been the subject of much litigation in recent years. As a result, the issuance, scope, validity, enforceability, and commercial value of our patent rights are highly uncertain. Our pending and future patent applications may not result in patents being issued which protect our technology or product candidates or which effectively prevent others from commercializing competitive technologies and products.

The ultimate outcome of any pending or allowed patent application we file is uncertain and the coverage claimed in a patent application can be significantly reduced before the patent is issued, and its scope can be reinterpreted after issuance. Any patents that we hold may be challenged, narrowed, circumvented, or invalidated by third parties. Consequently, we do not know whether any of our technology will be protectable or remain protected by valid and enforceable patents.

The issuance of a patent is not conclusive as to its inventorship, scope, validity or enforceability and our patents may be challenged in the courts or patent offices in the United States and in other jurisdictions. Competitors may claim that they invented the inventions claimed in such issued patents or patent applications prior to our inventors or may have filed patent applications before our inventors did. A competitor may also claim that our products and services infringe its patents and that we therefore cannot practice our technology as claimed under our patent applications, if issued. Competitors may also contest our patents, if issued, by showing that the invention was not patent-eligible, was not novel, was obvious or that the patent claims failed any other requirement for patentability.

Transactions with Related Parties

A company controlled by a director of FLYHT provided certain financial services in Q2 2018. All of the transactions with the related party were at exchange amounts that approximated fair value and were supported by a third party receipt.

	For the three months ended December 31		For the year ended December 31	
	2019	2018	2019	2018
Amounts included in:	\$	\$	\$	\$
Contract labour	-	-	-	12,900

Contractual Arrangement

Certain of the Company's sales contracts require that, in the event the Chinese government restricts use of the Iridium satellite constellation, the Company may be required to repurchase, at discounted rates, certain AFIRS units. The Chinese government has continued with a process of issuing waivers for the use of the Iridium frequency to aircraft needed for usage in China. This is the same process that they have used for many years, but have now gone to issuing three-year grants to Iridium Communications Inc. versus a yearly grant that they had in the past. Given the prevalent use of Iridium services in China and the extensions of waivers reported by Iridium Communications Inc., the likelihood of a liability under these contracts is considered to be remote.

Subsequent Event

While most industries have felt the effects of COVID-19 over the past few months, the pandemic has substantially impacted commercial aviation. From early January 2020 through the end of March 2020, daily departures from major airports have declined significantly. International travel has been severely curtailed, and airlines are taking extraordinary measures to preserve cash. Industry layoffs and furloughs have been accelerating, accounts payable have been pushed out, and capital equipment orders have been delayed or restructured.

Due to the equity raise in November 2019, which improved the Company's working capital, and the operational progress made throughout 2019, the Company entered 2020 with a relatively robust cash position. However, the Company anticipates reduced revenues in the near-term due to customers rescheduling orders and decreases in air traffic, which will impact the Company's corresponding SaaS revenues. The Company expects to continue receiving uninterrupted revenues from other sources during this challenging period. Additionally, the Company is discussing with customers the possibility of accelerating installations on aircraft that have been or will be grounded.

To preserve the Company's liquidity through this period of commercial aviation uncertainty, the following measures have been undertaken:

- Instituting a company-wide travel ban to protect employees and reduce associated costs
- Postponing new hires (with minimal exceptions)
- Initiating internal cost cutting measures
- Pursuing small business disaster loan assistance in the United States
- Pursuing business credit programs through Export Development Canada (EDC) and/or the Business Development Bank of Canada (BDC)
- Pursuing work-share programs from the government of Canada and the state of Colorado
- Engaging suppliers for extended payment terms

The Company will continue to monitor the industry conditions and implement these measures, as well as consider additional cash saving efforts, as the current situation dictates.

CORPORATE INFORMATION

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Share Listing

Shares are traded on the TSX Venture Exchange and the OTCQX Marketplace
Ticker Symbols: TSX: FLY and OTCQX: FLYLF

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President, Airbus Americas, Inc. (retired)
Director
President, Marlin Ventures Ltd.
Director
President, General Aero Company
United States Air Force (retired)
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