2020 SECOND QUARTER

MANAGEMENT DISCUSSION & ANALYSIS

FLYHT AEROSPACE SOLUTIONS LTD.

FLYHT™

INSIGHT • ACTION • CONTROL

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Commonly used Financial Terms and Aviation Acronyms

ACARS: Aircraft Communications Addressing and Reporting System
ADS-C Automatic Dependent Surveillance - Contract
AFIRS™: Automated Flight Information Reporting System
ANAC: National Civil Aviation Agency of Brazil
CAAC: Civil Aviation Administration of China
CPDLC Controller Pilot Data Link Communications
DAO: Design Approval Organization
DGAC: Direccion General de Aeronautica Civil (Mexico's certification organization)
EASA: European Aviation Safety Agency
EBITDA: Earnings before interest, taxes, depreciation and amortization
ECAA: Egyptian Civil Aviation Authority
FAA: Federal Aviation Administration
FANS Future Air Navigation System
FlightLink™: An Iridium Satellite Data Unit
GAAP: Generally Accepted Accounting Principles
GAMECO: Guangzhou Aircraft Maintenance Engineering Company Limited
IATA: International Air Transport Association
ICAO: International Civil Aviation Organization
IFRS: International Financial Reporting Standards
MD&A: Management Discussion and Analysis
OEM: Original Equipment Manufacturer
PAC: Panasonic Avionics Corporation
PWS: Panasonic Weather Solutions
QTD: Quarter-to-date
R&D: Research and Development
SADI: Strategic Aerospace and Defence Initiative
SAAU: State Aviation Authority of Ukraine
STC: Supplemental Type Certificate
TAMDAR™: Tropospheric Airborne Meteorological Data Reporting
TCCA: Transport Canada Civil Aviation
WINN: Western Innovation Initiative
YTD: Year-to-date

LETTER TO SHAREHOLDERS

Well, Q2 for FLYHT and pretty well every business on the planet will go down as one of the most surprising financial periods in the history of the world. FLYHT has seen its revenues decimated by forces that could not even have been imagined. It has seen a change in management and a re-focus on its key strength - data collection and analytics. FLYHT has mobilized its forces to bring innovative solutions from our vaults to assist our customers in their pandemic recovery efforts. We have joined forces with IBM to help both customers and prospective customers in rebuilding their businesses in this new environment. Watch for news over the next couple of quarters of customers and prospects that are embracing this vital change in approach, to ensure they emerge from this economic tragedy stronger, better and more focused than ever before.

We have launched a new program, “Actionable Intelligence”, which takes our 20 plus years of experience in data collection and analytics and combines it with the power of new tools such as IBM Watson to provide solutions, rather than a reporting focus on where problems occurred. A recent survey done by anna.aero showed that 68.4% of airlines expect to invest in digital transformation and 60.3% expect to invest in automation and AI tools in the short term. At the same time 75.5% of the respondents said they believed aircraft orders would decrease. Given those expectations, it was critical that FLYHT return to our roots, taking advantage of our considerable talents in the data analytics area, transforming our focus from report generating into Actionable Intelligence, supporting our customers as they realize their vision of coming back from this pandemic stronger with lower cost structures than ever before. It is important to understand that this is not a change in business strategy, but rather a return to core strength for FLYHT.

Our analysis shows the tools we have defined and are delivering to our customers could save an operator of a 100 aircraft fleet more than $80 million over 3 years, which is the currently estimated amount of time it will take to recover to 2019 flight levels. FLYHT will be a key part of that recovery.

FLYHT has taken several initiatives to conserve cash. Our cash balance at the end of June was only slightly less than the balance at the end of March. We continue to watch our cash as we analyze our backlog and the effect of airlines reducing fleet sizes and not taking delivery of new aircraft. We have reduced our backlog likely to manifest to $33 million because of this uncertainty, but still have contracts in hand to install more than 350 kits. Timing of conversion to revenue will be difficult to predict in this environment.

We have increased our sales force and have spent the last 60 days refocusing them on Actionable Intelligence sales, working with our board of directors and their long term relationships with airlines around the world to identify early adopters for the Actionable Intelligence products by forming Technology Partnerships with our customers. Again in the next few months you can expect to see announcements of these partnerships which will be key to significant SaaS revenue growth for FLYHT. These solutions are appealing to our customers because they don’t need to invest in new technologies and the cost of implementing our tools and technologies will be more than paid for by cost savings as they ramp up their operations.

Revenue for Q2 took a major hit but we remain EBIDTA positive in the quarter and year to date as we continue to see the results of cash conservation and cost constraints in our operating expenses. June over May results show increases in all revenue categories, as our customers begin to emerge from the bottom of the first COVID-19 wave in most countries. We will continue to monitor expenses and drive sales through the roll out of our refreshed tool set.

It is a challenging time but there are opportunities in every chaotic time, COVID-19 being no different. We have been through many calamities over the years, 9/11, SARS, Bird Flu, Swine Flu, been part of the AF 447 and MH 370 investigations and are working with the regulators still on Timely Recovery of Data initiatives. We have been here for 20+ years and plan to be here for the next 20. We hope you see that FLYHT’s strategy fits with the needs of the industry and that we have an approach that will ensure the resurgence of us and our customers.

Yours Truly

William T. Tempany

Interim Chief Executive Officer

MANAGEMENT DISCUSSION & ANALYSIS

This management discussion and analysis ("MD&A") is as of August 5, 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 June 30, 2020 condensed consolidated interim financial statements and the notes thereto in accordance with IAS 34 "Interim Financial Reporting", as issued by the International Accounting Standards Board (**"IASB"**).

Non-GAAP Financial Measures

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

Forward-Looking Statements

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

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

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

FLYHT Overview

FLYHT has been a pioneer in improving aviation safety, efficiency and profitability by providing insight into airline operations. Our products have allowed us to develop Actionable Intelligence tool kits based on our development of FLYHT's patented and unique aircraft certified hardware, AFIRS™ (Automated Flight Information Reporting System), a satellite communications (satcom), aircraft interface device (AID) which enables real-time streaming of flight information, cockpit voice and black box data streaming and 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's suite of products is divided into four categories, which all provide value through their seamless integration.

1. Airborne Hardware

AFIRS™

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.

2. Operational Tools

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 other FLYHT products with flight tracking, and Out-Off-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.

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. UpTime has many operational components which aid in aircraft operations, maintenance and ground operations as well as flight planning and scheduling. These tools include:

FLYHTFuel™

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

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

This tool 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 health monitoring 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
Logging 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.

3. Communications

FLYHTMail™
This 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 voice solution uses the Iridium satellite constellation with global coverage and an onboard satellite phone to provide a rapid and reliable private communication channel to the flight deck. When operating remote or oceanic flights, 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™
Streaming 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.

4. Actionable Intelligence

The unique combination of these tools allows us to deliver an incredibly valuable entrance into the world of artificial intelligence through the deployment of our Actionable Intelligence platform. FLYHT’s Actionable Intelligence provides insight into our partners total operations to find areas for improvement. That insight triggers actions based upon rules or previous observations to direct corrective action in near real time. These steps allow the airline to control profitability of their operations, improving customer satisfaction with better on time performance and allows for empowered employees who solve problems on the spot. A**irlines need to align the passenger experience, airline operations and positive working environment for enhanced profit opportunity with a seamless technology partnership.**

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	I	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		A				I			Bombardier DHC 8 -400
A	A	A	A	A	I		A			Bombardier CRJ 100, 200, 440
	A		A		I		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 second quarter of 2020; 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 experience 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. A May 2020 ANNA.aero global survey found that over the next **two** years:

- 68.4% of respondents expect investment in digital transformation to increase
- 60.3% expect investment in automation and the deployment of artificial intelligence (AI) technology to rise
- 54.2% expect spending to increase on sustainability and environmental initiatives
- 53.5% expect investment in innovation to increase
- 48.5% expect to see an upturn in customer experience and service spending, with less than a quarter (22.9%) expecting investment in this area to fall
- At the other end of the scale, 75.5% of survey respondents expect investment in aircraft orders to decrease over the next two years, while 55.3% expect to see
- a decrease in terminal design and construction spend
- Recovery will take two to three years

The Aviation Industry in Q2 2020

The International Air Transport Association's (IATA) industry results, measured in Revenue Passenger Kilometres (RPK) and Cargo Tonne Kilometers (CTKs) are the passenger and freight contributions to airline revenue and are significant markers to determine the health of the industry. IATA's full second quarter results were not yet released at the publication of this report, so the results shared are for the first two months of the quarter.

Initial Q2 2020 financial results indicate that the airline industry will post its worst quarterly financial performance, extending the losses in Q1 2020, as COVID-19 became widespread across all regions. Although airlines immediately imposed stringent cost cutting measures to preserve cash and limit the impact of unprecedented revenue loss, the industry continues to face falling cash balances.[(1)] Revenue passenger-kilometres (RPKs) fell by 91% year-on-year in May vs. a 94% decline in April.[(2)] Industry-wide cargo tonne-kilometres (CTKs) fell by 20.3% year-on-year in May, a slight improvement from the 25.6% decline seen in April.[(3)]

Results from large commercial aircraft manufacturers show Airbus and Boeing deliveries shrank dramatically in comparison with 2019. Airbus has delivered 74 Aircraft in the Q2 of 2020 which is a 67% drop in deliveries for Airbus from Q2 2019.[(4)] Boeing saw a decrease in deliveries with 20 Commercial Aircraft in the second quarter of 2020. This is down significantly from 90 commercial deliveries from Q2 2019.[(5)] Embraer announced that in the second quarter of 2020, has delivered a total of 17 jets that include four commercial aircraft and 13 executive jets. This is down significantly from Q2 2019 that had 26 commercial aircraft and 25 executive jets.[(6)] Bombardier reports their commercial aircraft unit delivered 17 aircraft in the second quarter which is up 70% from 10 deliveries in the same period last year.[(7)] The General Aviation Manufacturers Association (GAMA) had not reported on the first or second quarter of this year by the time of this report.

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 continued to remain weak relative to the U.S. dollar throughout Q2 2020[(8)] and the Company experienced a resulting positive impact to net income compared to Q2 2019. 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.

Q2 2020 Contracts, Achievements and Activities

Contracts

FLYHT received USD$350,000 in new sales contracts and purchase orders in Q2 2020. These contract figures assume that the Company provides services over the full term of these contracts. FLYHT has not identified any impediments to the fulfillment of these contracts as a result of any subsequent events after these disclosures.

- A trial agreement with a meteorological agency for the delivery of TAMDAR data
- A five year contract to provide FLYHTLog to a new customer on an aircraft they acquired with AFIRS installed
- Five AFIRS 228S installation kits to an existing Chinese airline customer to support their expanding fleet

Achievements & Activities

- Barry Eccleston named Executive Chairman of the Company’s board of directors; Bill Tempany named interim CEO
- Incentive stock options for an aggregate 755,300 common shares were granted, to employees, officers and directors under the stock option plan approved at the Annual and Special meeting held on June 23, 2020
- Received funds under two programs designed to support Canadian and American small businesses during COVID-19
- Commencement of training on Agile development methodology for all staff to be completed by August of 2020
- First proposals for Actionable intelligence delivered to 3 prospective customers

Results of Operations

Selected Results

	Q2 2020 $	Q1 2020 $	Q4 2019 $	Q3 2019 $
Assets	17,266,441	18,513,259	14,736,226	11,529,110
Non-current financial liabilities	7,376,115	7,073,883	4,618,014	4,685,813
Revenue	3,060,157	5,295,232	4,281,612	5,197,446
Cost of sales	993,846	1,325,602	1,595,421	2,674,856
Gross margin	2,066,311	3,969,630	2,686,191	2,522,590
Gross margin %	67.5%	75.0%	62.7%	48.5%
Distribution expenses	1,163,957	2,108,641	1,992,477	1,941,927
Administration expenses	686,489	1,099,130	1,199,149	941,060
Research, development and certification engineering expenses	440,818	928,325	1,100,961	939,935
Results from operating activities	(224,953)	(166,466)	(1,606,396)	(1,300,332)
Depreciation	199,673	267,404	253,614	215,881
Other income	178,412	628,500	641,296	623,544
EBITDA*	153,132	729,438	(711,486)	(460,907)
Income (loss)	(276,515)	686,022	(1,212,971)	(777,648)
Income (loss) per share (basic)	(0.01)	0.03	(0.06)	(0.04)
Income (loss) per share (diluted)	(0.01)	0.03	(0.06)	(0.04)

	Q2 2019 $	Q1 2019 $	Q4 2018 $	Q3 2018 $
Assets	10,988,820	12,177,007	9,097,270	6,401,513
Non-current financial liabilities	4,862,450	5,532,865	4,420,714	4,385,051
Revenue	6,350,349	5,341,752	4,033,826	3,092,113
Cost of sales	2,141,376	2,432,704	1,775,657	1,344,643
Gross margin	4,208,973	2,909,048	2,258,169	1,747,470
Gross margin %	66.3%	54.5%	56.0%	56.5%
Distribution expenses	2,294,519	2,066,846	2,075,217	1,395,475
Administration expenses	1,118,420	955,290	1,258,097	780,899
Research, development and certification engineering expenses	1,020,747	707,871	789,203	398,275
Results from operating activities	(224,713)	(820,959)	(1,864,348)	(827,179)
Depreciation	191,591	180,332	57,143	34,624
Other income	1,544,756	1,316,977	1,861,050	-
EBITDA*	1,511,634	676,350	53,845	(792,555)
Income (loss)	1,037,326	206,658	217,954	(953,034)
Income (loss) per share (basic)	0.05	0.01	0.01	(0.04)
Income (loss) per share (diluted)	0.05	0.01	0.01	(0.04)

**See Non-GAAP Financial Measures*

Financial Position

Liquidity and Capital Resource

The Company's cash and cash equivalents at June 30, 2020 decreased to $3,702,824 from $4,127,648 at December 31, 2019. The Company has an operating demand loan available through a Canadian chartered bank for up to a maximum of $1.5 million CAD or 90% of the Company's receivable balance, drawn either in CAD or USD. The operating demand loan bears interest at the Canadian chartered bank prime plus 1.5% (CAD) or US prime plus 4.5% (USD). Security includes specific accounts receivable, a guarantee under the Export Development Canada's Export Guarantee Fund and a general security agreement including a security interest in all personal property. This facility was undrawn as at June 30, 2020.

The Company funded Q2 2020 operations primarily through the proceeds from the November 2019 private placement, cash received from sales, funding obtained from the Canadian Emergency Wage Subsidy and United States Paycheck Protection Program governmental programs, and contributions from the Western Innovation Initiative (WINN). The Company will strive to self-fund operations through the remainder of 2020.

	June 30, 2020 $	December 31, 2019 $	Variance $
Cash and cash equivalents	3,702,824	4,127,648	(424,824)
Trade and other receivables	5,501,735	4,980,405	521,330
Contract assets	218,571	256,125	(37,554)
Deposits and prepaid expenses	1,080,268	797,759	282,509
Inventory	1,883,635	1,672,068	211,567
Trade payables and accrued liabilities	(1,752,018)	(2,346,560)	594,542
Customer deposits	(743,841)	(160,706)	(583,135)
Contract liabilities	(110,681)	(658,655)	547,974
Loans and borrowings	(606,630)	(718,015)	111,385
Lease liability	(565,727)	(625,590)	59,863
Working capital*	**8,608,136**	**7,324,479**	**1,283,657**

**See Non-GAAP Financial Measures*

As at August 5, 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.

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 June 30, 2020, the Company had positive working capital of $8,608,136 compared to positive $7,324,479 as of December 31, 2019, an increase of $1,283,657. The Company ended Q2 2020 with balances of $3.7 million in cash and cash equivalents, an undrawn credit facility of $1.5 million, and $2.2 million in contributions under WINN loans not yet received. The Company's operating results and cash flows from operations were negative in both Q2 2020 and Q2 2019.

For the Company to continue as a going concern longer-term, it will need to achieve profitability and positive operating cash flows. The Company will continue to expand its earnings and cash flow potential through its focused marketing efforts, particularly the presentation of Actionable Intelligence tools to our customer and prospects, which are expected to result in additional contracts for delivery of hardware units and related services. The intention is to provide profit enhancement opportunities to our customers and prospects without requisite capital expenditures by them and thereby get back to our core benefit to our shareholders of high value SaaS revenue growth.

Until achieving positive earnings and cash flows, it is the Company's intention to continue to fund operations through revenue and its resulting cash flow as well as continue to manage outgoing cash flows. The Company may have to scale back operations to create positive cash from existing revenue and/or raise the necessary financing in the capital markets through debt and/or equity.

General economic conditions in the industry and the financial condition of major customers may significantly impact the Company's ability to achieve positive earnings and cash flows. The negative impact to the commercial air industry by the COVID-19 pandemic is unprecedented. FLYHT expects to see near and intermediate term risk in all aspects of revenue and trade receivable payments 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.

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 condensed consolidated interim financial statements do not reflect adjustments that would otherwise be necessary if the going concern assumption was not valid, such as revaluation to liquidation values and reclassification of statement of financial position items.

Financial Instruments

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

The Company may be exposed to changes in interest rates as a result of the operating loan bearing interest based on the Company's lenders' prime rate. This facility was undrawn as at June 30, 2020.

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.

June 30, 2020	< 2 months $	2-12 months $	1-2 years $	2-5 years $	> 5 years $	Total $
Accounts payable	1,302,057	10,472	-	-	-	1,312,529
Compensation and statutory deductions	76,495	64,607	162,030	-	-	303,132
Accrued liabilities	46,479	89,878	-	-	-	136,357
Lease payments	482,751	404,125	571,376	814,613	1,789,557	4,062,423
Loans and borrowings	133,949	651,312	2,897,293	2,276,953	1,316,618	7,276,125
Total	**2,041,731**	**1,220,394**	**3,630,699**	**3,091,567**	**3,106,175**	**13,090,566**

Under the Strategic Aerospace and Defence Initiative (SADI), the Company has, at June 30, 2020, an outstanding repayable balance of $1,458,664. 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. There was no repayment made in the second quarter of 2020, as the payment scheduled for April 2020 was deferred by the SADI program until early 2021 in response to the economic impact of the COVID-19 pandemic (second quarter of 2019: $137,234).

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 was received. The amount is repayable over five years commencing January 1, 2020. A June 2020 amendment adjusted the payment dates due to COVID-19, so that there are no payments scheduled from April – Sept, 2020 and the final payment date has been pushed back to June 2025. Repayments in Q1 2020 totaled $117,000.

In November 2018, the Company signed a second contribution agreement with Western Economic Diversification Canada for a WINN loan, to support development of the next generation of AFIRS hardware and embedded software to address parts obsolescence issues and add new market-driven features. Under the terms of 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 June 30, 2020, the Company had received contributions totaling $567,904 (December 31, 2019: $163,782).

A summary of the carrying value of the SADI and WINN loans as at June 30, 2020 and 2019 and changes during these six and three months is presented below.

	2020 $			2019 $		
	SADI	**WINN**	**Total**	**SADI**	**WINN**	**Total**
Balance January 1	1,340,262	2,003,235	3,343,497	1,252,743	1,569,663	2,822,406
Received	-	404,122	404,122	-	225,238	225,238
Grant portion	-	(74,496)	(74,496)	-	(90,545)	(90,545)
Interest accretion	118,402	102,533	220,935	110,865	79,855	190,720
Repayment	-	(117,000)	(117,000)	(137,234)	-	(137,234)
Balance June 30	**1,458,664**	**2,318,394**	**3,777,058**	**1,226,374**	**1,784,211**	**3,010,585**
Less current portion	147,495	325,186	472,681	137,235	204,917	342,152
Non-current portion	1,311,169	1,993,208	3,304,377	1,089,139	1,579,294	2,668,433

	2020 $			2019 $		
	SADI	**WINN**	**Total**	**SADI**	**WINN**	**Total**
Balance March 31	1,400,456	2,175,392	3,575,848	1,308,953	1,734,698	3,043,651
Received	-	114,275	114,275	-	12,450	12,450
Grant portion	-	(24,348)	(24,348)	-	(5,026)	(5,026)
Interest accretion	58,208	53,075	111,283	54,655	42,089	96,744
Repayment	-	-	-	(137,234)	-	(137,234)
Balance June 30	**1,458,664**	**2,318,394**	**3,777,058**	**1,226,374**	**1,784,211**	**3,010,585**
Less current portion	147,495	325,186	472,681	137,235	204,917	342,152
Non-current portion	1,311,169	1,993,208	3,304,377	1,089,139	1,579,294	2,668,433

Convertible Debenture

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

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). The original agreement allowed for each whole Warrant to be exercised to acquire one Common Share of FLYHT for a period of two (2) years from the date of issuance at an exercise price of $1.45 per share. The Warrants were 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 was equal to or exceeded $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 would accelerate to the date which was 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.

In July 2020 the Company amended the exercise price of the Warrants to $0.60 and extended the term of the Warrants to December 24, 2020, subject to 30-day acceleration if, for any ten consecutive trading days during the unexpired term of such Warrants, the closing price of the Company's Shares is greater than $0.72.

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

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

	For the three months ended June 30			For the six months ended June 30		
	2020 $	2019 $	Variance $	2020 $	2019 $	Variance $
Opening Balance	1,597,750	1,770,961	(173,211)	1,535,438	1,727,773	(192,335)
Debenture conversion	-	(207,060)	207,060	-	(229,495)	229,495
Interest paid on conversions	-	(13,893)	13,893	-	(18,115)	18,115
Amortization of issue costs	6,036	6,228	(192)	12,074	12,321	(247)
Accrued interest	58,270	67,335	(9,065)	114,544	131,087	(16,543)
Carrying amount at June 30	**1,662,056**	**1,623,571**	**38,485**	**1,662,056**	**1,623,571**	**38,485**
Less current portion	133,949	133,949	-	133,949	133,949	-
Non-current portion	1,528,107	1,489,622	38,485	1,528,107	1,489,622	38,485

Contract Liabilities - Customer Deposits

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

The chart below outlines the movement in the Company's customer deposits throughout the three and six months ending June 30, 2020 and 2019. Payment was received for 12 installation kits in the second quarter of 2020 compared to 26 received in the second quarter of 2019. For the six months ended June 30, 2020, payment has been received for 32 compared to 66 in 2019.

	Q2 2020 $	Q2 2019 $	Variance $	YTD 2020 $	YTD 2019 $	Variance $
Opening balance	557,515	899,387	(341,872)	160,706	661,833	(501,127)
Payments received	578,710	245,090	333,620	1,798,714	2,953,436	(1,154,722)
Recognized as revenue	(392,384)	(763,277)	370,893	(1,215,579)	(3,234,069)	2,018,490
Balance, June 30	**743,841**	**381,200**	**362,641**	**743,841**	**381,200**	**362,641**

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. **Technical Services** includes all services offered by the Company, including repairs and other expertise.

Revenue sources

	Q2 2020 $	Q2 2019 $	Variance $	YTD 2020 $	YTD 2019 $	Variance $
SaaS	1,305,049	2,480,880	(1,175,831)	4,043,704	4,886,112	(842,408)
Hardware	450,841	1,754,672	(1,303,831)	678,525	4,073,415	(3,394,890)
Licensing	1,233,096	1,501,513	(268,417)	3,496,773	1,935,431	1,561,342
Technical Services	71,171	613,284	(542,113)	136,388	797,143	(660,755)
Total	**3,060,157**	**6,350,349**	**(3,290,192)**	**8,355,389**	**11,692,101**	**(3,336,711)**

For the three months ended June 30, 2020, total revenue decreased 51.8% from $6,350,349 in Q2 2019 to $3,060,157 in Q2 2020. An indicator of the financial impact of COVID-19 is the revenue decrease that occurred in all four categories as compared to the same quarter last year: SaaS revenues decreased by 47.4%, Licensing decreased by 17.9%, Hardware decreased by 74.3%, and Technical Services revenue decreased by 88.4%.

SaaS revenues decreased in Q2 2020 as compared to Q2 2019. When comparing Q2 2020 to Q2 2019, the decrease in this category resulted from a large number of customer aircraft being grounded during the global pandemic.

Hardware sales decreased in Q2 2020 as compared to Q2 2019 due to fewer installation kits being shipped during the global pandemic. Revenue was recognized for 7 installation kits in Q2 2020, compared to 31 in Q2 2019.

Licensing decreased in the second quarter due to differences in the number of modems and associated license fees ordered for delivery in the quarter.

Technical Services revenue decreased in the second quarter of 2020 as compared to Q2 2019. This revenue category can be expected to vary significantly between periods and years, depending on the level of additional technical services provided to customers in each relevant period.

Revenue sources for the last eight quarters were:

	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018
SaaS	1,305,049	2,738,654	2,711,228	2,649,345	2,480,880	2,405,232	2,261,211	1,145,368
Hardware	450,841	227,684	657,577	1,864,523	1,754,672	2,374,901	1,464,475	1,651,592
Licensing	1,233,096	2,263,677	772,466	589,546	1,501,513	377,760	249,833	265,492
Technical Services	71,171	65,217	140,341	94,032	613,284	183,859	58,307	29,661
Total	**3,060,157**	**5,295,232**	**4,281,612**	**5,197,446**	**6,350,349**	**5,341,752**	**4,033,826**	**3,092,113**

	Q2 2020		Q2 2019		YTD 2020		YTD 2019	
	$	%	$	%		%		%
United States & Mexico	1,608,576	52.6	2,951,680	46.5	4,864,858	58.2	4,408,445	37.7
Asia	119,331	3.9	629,867	9.9	781,791	9.4	1,297,237	11.1
China	615,503	20.1	813,330	12.8	937,349	11.2	2,328,964	19.9
Middle East	179,069	5.9	1,046,641	16.5	494,211	5.9	1,541,572	13.2
Canada	284,390	9.3	378,667	6.0	564,912	6.8	1,016,061	8.7
Australia	88,940	2.9	157,805	2.5	257,653	3.1	313,090	2.7
Africa	95,007	3.1	133,448	2.1	258,821	3.1	309,507	2.6
Europe	35,066	1.1	160,907	2.5	83,027	1.0	316,162	2.7
South/Central America	34,275	1.1	78,004	1.2	112,767	1.3	161,062	1.4
Total	**3,060,157**	**100.0**	**6,350,349**	**100.0**	**8,355,389**	**100.0**	**11,692,101**	**100.0**

Gross Profit and Cost of Sales

FLYHT's cost of sales includes the direct costs associated with specific revenue types, including the hardware unit, installation kits, training and installation support, as well as associated shipping expenses and travel expenses for the Company's engineering personnel while performing on-site installation support. Installations on aircraft are performed by third parties at the customer's expense. Cost of sales as a percentage of revenue in the second quarter of 2020 was 32.5% compared to 33.7% in 2019's second quarter. The decrease in gross margin was due to differences in the mix of revenue sources in 2020 versus 2019. Gross margin will fluctuate quarter over quarter depending on customer needs and revenue mix.

Gross margin for the last eight quarters was:

	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018
Gross Margin %	67.5	75.0	62.7	48.5	66.3	54.5	56.0	56.5
Cost of Sales	32.5	25.0	37.3	51.5	33.7	45.5	44.0	43.5

Distribution Expenses (Recovery)

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

Major Category	Q2 2020 $	Q2 2019 $	Variance $	YTD 2020 $	YTD 2019 $	Variance $
Salaries and benefits	1,165,267	1,679,495	(514,228)	2,641,564	3,150,512	(508,948)
Share based compensation	843	10,781	(9,938)	11,228	19,320	(8,092)
Contract labour	82,809	170,819	(88,010)	328,961	358,513	(29,552)
Office	47,483	100,299	(52,816)	86,868	145,944	(59,076)
Travel	7,820	166,236	(158,416)	113,924	326,287	(212,363)
Equipment and maintenance	4,680	14,774	(10,094)	20,402	36,930	(16,528)
Depreciation	129,225	128,834	391	300,032	252,769	47,263
Marketing	-	19,627	(19,627)	4,177	71,410	(67,233)
Government Grants	(605,603)	-	(605,603)	(605,603)	-	(605,603)
Bad Debt Reserve	331,433	3,654	327,779	371,045	(321)	371,366
Total	**1,163,957**	**2,294,519**	**(1,130,562)**	**3,272,598**	**4,361,364**	**(1,088,766)**

Distribution expenses decreased 49.3% from Q2 2019 to Q2 2020, due mainly to differences in people costs, in part due to receipt of government payroll funding.

Salaries and Benefits have decreased as the re-filling of some open positions have been deferred until after businesses start to resume normal operations.

Contract Labour has decreased in Q2 2020 over Q2 2019, mainly due to a reduction in external project costs while preserving cash until the economy starts to recover.

Travel and Marketing expenses have decreased quarter over quarter as out of country travel has ceased and various conferences and other events have been cancelled during the COVID-19 pandemic.

Government Grants were received from both the Canadian government (CEWS) as well as the United States government (PPP) to assist businesses in covering payroll and maintaining personnel during the global pandemic.

Administration Expenses (Recovery)

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

Major Category	Q2 2020 $	Q2 2019 $	Variance $	YTD 2020 $	YTD 2019 $	Variance $
Salaries and benefits	374,799	530,238	(155,439)	965,209	1,013,516	(48,307)
Share based compensation	1,444	22,732	(21,288)	24,749	43,297	(18,548)
Contract labour	76,886	109,993	(33,107)	177,930	222,327	(44,397)
Office	109,793	110,677	(884)	242,524	225,236	17,288
Legal fees	31,923	14,344	17,579	44,766	16,847	27,919
Audit and accounting	68,948	72,011	(3,063)	112,051	113,262	(1,211)
Investor relations	78,512	52,654	25,858	108,606	105,079	3,527
Travel	9,435	68,591	(59,156)	62,213	109,518	(47,305)
Equipment and maintenance	50,243	62,265	(12,022)	107,105	119,996	(12,891)
Depreciation	41,198	29,850	11,348	90,800	55,951	34,849
Government Grants	(157,568)	-	(157,568)	(157,568)	-	(157,568)
Other	876	45,065	(44,189)	7,192	47,409	(40,217)
Total	**686,489**	**1,118,420**	**(431,931)**	**1,785,577**	**2,072,438**	**(286,861)**

Administration expenses decreased by 38.6% from Q2 2019 to Q2 2020.

Salaries and Benefits have decreased as the re-filling of some open positions have been deferred until after businesses start to resume normal operations.

Travel expenses have decreased as international travel has been halted and all conventions and conferences have been cancelled.

Investor relations expenses have decreased quarter over quarter, due to cost containment strategies employed during the COVID-19 pandemic.

Government Grants were received from both the Canadian government (CEWS) as well as the United States government (PPP) to assist businesses in covering payroll and maintaining personnel during the global pandemic.

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	Q2 2020 $	Q2 2019 $	Variance $	YTD 2020 $	YTD 2019 $	Variance $
Salaries and benefits	696,586	820,350	(123,764)	1,518,691	1,497,979	20,712
Share based compensation	1,852	3,472	(1,620)	4,100	6,475	(2,375)
Contract labour	102,401	38,441	63,960	167,269	55,645	111,624
Office	13,157	55,693	(42,536)	26,636	92,191	(65,555)
Travel	(3,409)	40,837	(44,246)	12,771	58,296	(45,525)
Equipment and maintenance	1,287	1,174	113	3,044	8,502	(5,458)
Components	205	33,079	(32,874)	10,939	36,726	(25,787)
Depreciation	29,250	32,907	(3,657)	76,245	63,203	13,042
Government grants	(400,511)	(5,206)	(395,305)	(450,659)	(90,545)	(360,114)
Other	-	-	-	106	147	(41)
Total	**440,818**	**1,020,747**	**(579,929)**	**1,369,142**	**1,728,619**	**(359,477)**

Research and Development expenses were 56.8% lower in Q2 2020 compared to Q2 2019. The main contributors to the decrease were decreased people costs and a high level of government funding received. Research and development costs vary according to specific project requirements.

Salaries and benefits expense decreased in Q2 2020 as a result of a reduction in employee time allocated toward projects that meet the definition of development activities.

Government Grants were received from both the Canadian government (CEWS) as well as the United States government (PPP) to assist businesses in covering payroll and maintaining personnel during the global pandemic.

Net Finance Costs

Major Category	Q2 2020 $	Q2 2019 $	Variance $	YTD 2020 $	YTD 2019 $	Variance $
Interest (income)	(17,064)	(7,033)	(10,031)	(39,244)	(12,676)	(26,568)
Net foreign exchange loss (gain)	26,158	87,298	(61,140)	(380,982)	186,167	(567,149)
Bank service charges	6,648	7,380	(732)	15,081	14,439	642
Interest expense	38,642	25,036	13,606	63,583	50,406	13,177
Government loan accretion	111,283	96,744	14,539	220,935	190,720	30,215
Debenture interest and accretion	64,307	73,562	(9,255)	126,618	143,407	(16,789)
Net finance costs	**229,974**	**282,987**	**(53,013)**	**5,991**	**572,463**	**(566,472)**

The financial impact of **Net foreign exchange gains and losses** will vary between periods as the value of the Canadian dollar fluctuates in relation to the U.S. dollar. A weakening of the Canadian dollar has given rise to foreign exchange gains in Q2 2020 versus losses in Q2 2019 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 Income (Loss)

Major Category	Q2 2020 $	Q2 2019 $	Variance $	YTD 2020 $	YTD 2019 $	Variance $
Net income (loss)	(276,515)	1,037,326	(1,313,841)	409,547	1,244,918	(835,371)

Other income

Other income of $178,412 is the value of the final reconciling items from the October 2018 asset acquisition of Panasonic Weather Solutions, which compares to Q2 2019's full quarterly subsidy recognized of $1,544,756.

Other

Risks and Uncertainties

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

Impact of COVID-19 to Commercial Air Industry

The negative impact to the commercial air industry by the COVID-19 pandemic is unprecedented. The Company has seen impact to revenues and continues to expect near and intermediate term risk in all aspects of revenue and timing of trade receivable payments 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 system currently hosted in the United States is being migrated to AWS and the project will be completed in Q3 2020. This will minimize the risk of possible system disruption that would negatively impact FLYHT's customers. 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 recognizes a majority of its sales in U.S. dollars so there is a risk of currency fluctuation. The major portion of the operating and overhead costs are denominated in Canadian dollars, though certain payroll costs and a significant portion of costs of goods sold, marketing and distribution costs are U.S. dollar denominated, and therefore create a partial natural hedge against fluctuations of the Canadian dollar.

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

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

Dependence on key personnel and consultants
FLYHT's ability to maintain its competency in the industry is dependent on maintaining a specialty skilled workforce. The Company's DAO status, delegated by TCCA, enables a smooth implementation of STCs, required to install AFIRS on aircraft. Key staff with TCCA delegation status enables the Company to complete STCs in a timely and cost-efficient manner. Similarly, the Company must interact with the FAA for its USA based STCs and PMA certifications. The Company 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 sales of the AFIRS 228 products to date. With the changes to the industry brought on by the COVID 19 situation, the return to value added SaaS products is critical. Early indications that our Actionable Intelligence strategy is highly desirable by industry players of all sizes to assist in the recovery of the industry have been encouraging. The Company's success will ultimately depend on the success of its products, and future enhancements made to them.

Revenues associated with TAMDAR
TAMDAR is currently installed on approximately 70 aircraft for the purposes of collecting weather data. 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's strategy to mitigate these potential problems and potentially grow the revenues derived from TAMDAR has been to expand 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. The number of flights around the world have decreased during the COVID-19 pandemic, decreasing the amount of weather data being collected from those aircraft with TAMDAR sensors installed, which has been reflected in the Company's revenues.

Availability of key supplies
FLYHT services its products differently, depending on the product.

- The AFIRS 220 is no longer in production and all units are repaired in-house at FLYHT-Calgary. Certain parts can be delayed in shipping or availability, which can cause a delay in servicing the AFIRS 220. FLYHT aims to avoid the risk of not having the necessary supplies by managing inventories and storing extra key parts. Additionally, the Company maintains close communication with its partners and suppliers to ensure all key components for the AFIRS units will be available into the future.
- The AFIRS 228 units are built by a contract manufacturer. The Company relies on partners, suppliers and special parts to complete unit builds. Certain parts can be delayed in shipping or availability, which can cause a delay in servicing the AFIRS 220 or in receiving AFIRS 228 receiving completed units. FLYHT aims to avoid the risk of not having the necessary supplies by managing inventories and storing extra key parts. The contract manufacturer is a global supplier with the ability to meet FLYHT's requirements. Additionally, the Company maintains close communication with its partners and suppliers to ensure all key components for the AFIRS units will be available into the future. The AFIRS 228 is serviced in different ways; by the contract manufacturer, at FLYHT-Calgary or by our contract maintenance facility GAMECO in Guangzhou, China. Where a unit is repaired or serviced depends on a multitude of factors and is managed by FLYHT's customer support team.
- FlightLink and TAMDAR are assembled at FLYHT-Littleton using subassemblies that the Company procures from suppliers. These units are tested and certified at the FLYHT-Littleton location before being shipped to customers. FLYHT maintains close communication with its partners and suppliers to ensure all key components for TAMDAR and FlightLink are available for manufacturing. FlightLink and TAMDAR are currently serviced by Panasonic owned maintenance and repair facilities in Washington State, USA and Singapore. FLYHT is working towards FAA approval for Part 145 repair facility at FLYHT-Littleton.

Proprietary protection

Patent rights are important to the continuation of the Company because the AFIRS technology is the Company's primary revenue source. The Company relies on contract, copyright and trademark laws and has received patents from the United States, Chinese, Turkish and European patent offices. These patents are generally respected in other international jurisdictions as well. The risks involved with proprietary protection lie in other companies infringing on FLYHT patents or claiming patent infringement by FLYHT. The Company has defended patent claims in court and been successful.

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

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

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

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

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

Contractual Arrangement

Certain of the Company's sales contracts require that, in the event the Chinese government restricts use of the Iridium satellite constellation, the Company may be required to repurchase, at discounted rates, certain AFIRS units. The Chinese government has continued with a process of issuing waivers for the use of the Iridium frequency to aircraft needed for usage in China. This is the same process that they have used for many years, but they have now gone to issuing three-year grants to Iridium Communications Inc. versus the 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.

COVID-19

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 onward, 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. Despite the revenue impact of COVID-19 throughout Q2, the Company was able to maintain a similar cash position at the end of Q2 2020 as to that at the end of Q1 2020. However, the Company anticipates continued negative revenue impact in the near-term due to customers rescheduling orders and decreases in air traffic, which will continue to impact the Company's corresponding hardware and SaaS revenues and has had a negative impact the bad debt reserve while airline recovery timing is still to be determined. The Company's bad debt reserve at June 30, 2020 has increased to $947,849 from $544,880 at December 31, 2019.

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

- Focused spending on immediate revenue opportunities
- Access government support
- Cost containment and cash conservation
- Working with existing partner airlines to assist in their recovery
- Focus on development of new long-term SaaS partnerships

The Company has received $1.2 million of government financial relief related to COVID-19 as of June 30, 2020. A total of $998 thousand in grant funds have been applied against salaries in all three expense categories (Distribution, Administration and Research & Development). Unapplied funds are on the books as a liability until such time as the funds comply with appropriate conditions to be recognized as a grant against applicable expenses.

The Company will continue to monitor industry conditions and implement these and other measures, as the situation dictates.

Contingent Liability

As announced on June 30, 2020, the Company has received a statement of claim from Thomas R. Schmutz (former Chief Executive Officer of FLYHT) in the amount of $525,000 CAD in relation to the termination of his employment with the Company. The matters raised in the lawsuit are considered by the Company to be unfounded and unproven allegations that will be vigorously defended. Although no assurances can be given with respect to the outcome of such proceedings, the Company believes it has valid defenses to this claim and accordingly has not recorded any related liability at this time.

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Ticker Symbols: TSX: FLY and OTCQX: FLYLF

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Jack Olcott	President, General Aero Company
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Mike Brown	Partner, Nanaimo Law
Nina Jonsson	Director
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