

2021

FIRST QUARTER

Management Discussion & Analysis

FLYHT AEROSPACE SOLUTIONS LTD.



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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
AHM:	Aircraft Health Monitoring
ANAC:	National Civil Aviation Agency of Brazil
CAAC:	Civil Aviation Administration of China
CARES:	The Coronavirus Aid, Relief, and Economic Security Act
CERS:	Canada Emergency Rent Subsidy
CEWS:	Canadian Emergency Wage Subsidy
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
PPP:	Paycheck Protection Program
PWS:	Panasonic Weather Solutions
QTD:	Quarter-to-date
R&D:	Research and Development
SaaS:	Software as a Service
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



What a difference a year makes. Looking in the rear-view mirror, FLYHT posted record SaaS revenue along with very strong licence fees in Q1 of 2020. In Q1 2021 SaaS revenue of \$1,539,825 (-43.8%), and \$182,181 of licensing revenue due to the contraction of deliveries of new aircraft as customers froze their fleets changed the revenue picture for FLYHT. With international borders closed, travel to sun destinations restricted by government regulations, and Zoom business meetings the norm, the ongoing effects of the pandemic are plainly evident in FLYHT's financials this quarter. The golden lining in this storm cloud is that the industry is seeing recovery in major markets, China is back to pre-pandemic activity levels and, providing that the third wave of the pandemic does not worsen, we have every expectation that a recovery of commercial aviation – and FLYHT – is under way.

Even with these headwinds we held the line on cash compared to last year. This quarter, while we have used some of our cash due to seasonal needs, we feel much more secure that expected revenue recoveries in the second half of 2021 will lead to cash generation and a stronger balance sheet. We are making solid progress in our strategic refocus on software “first” (versus being hardware dependant). FLYHT's development teams have product being tested by customers.

It has been a difficult year since the pandemic gripped us in its teeth, but we have been very prudent and methodical in our use of resources. We have rationalized spending on non-essential products, and maintained high service levels and customers happiness, having worked with them to help them manage through the tribulations of the past year. These efforts position FLYHT to take full advantage of the recovery.

Looking ahead, there are three factors that fuel my excitement and optimism for FLYHT in the coming months. First, we have the addition of new products and services within our Actionable Intelligence suite and the AFIRS family of products which cover a wide spectrum of aircraft, communication methods, and geographies. Second, we have the expected recovery of the airline sector, particularly in the travel and leisure markets and the eventual reopening of borders around the world as vaccines are rolled out. We are already seeing traffic numbers in the U.S. climb as vaccine percentages increase. And third, we have strong cargo and specialty carrier customers in our fleet, and it is the short haul mid-sized companies that will recover first and fastest.

From our vantage point, we're seeing new orders coming in from existing customers, new airlines buying our solutions, and existing customers adopting our new technologies to help them take advantage of technology as part of their recovery strategy.

I was told many years ago that a car has a big windshield and a small rear-view mirror for a reason. You always want to keep an eye on what is behind you, but it is much more important to be able to see what is coming up in front of you. At FLYHT, we have good perspective on where we've been and a clear view of what's ahead. What we see coming is a strong, flexible, adaptable company that will be part of supporting the essential commercial aviation in its recovery from COVID-19 and well beyond. This should reward our customers, employees and partners – and shareholders.

Yours Truly,

A blue ink handwritten signature, appearing to read 'W. Tempany', written over a light blue horizontal line.

William T. Tempany
Interim Chief Executive Officer

MANAGEMENT DISCUSSION & ANALYSIS

This management discussion and analysis ("MD&A") is as of May 5, 2021 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, 2020 and 2019 and the accompanying notes. Additional information with respect to FLYHT can be found on SEDAR at www.sedar.com. The Company has prepared its March 31, 2021 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 provides airlines with Actionable Intelligence to transform operational insight into immediate, quantifiable action, delivering industry leading solutions to improve aviation safety, efficiency and profitability. This unique capability is driven by FLYHT's patented aircraft certified hardware products including AFIRS™, a satcom aircraft interface device which enables real-time streaming of flight information, cockpit voice and black box data streaming and TAMDAR™, which aggregates and streams airborne weather data in real-time. 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 hardware products, software applications and communication systems are designed to work seamlessly to provide excellent value to our customers by having customizable access to real-time data from the aircraft, integrated with the information from systems operated by the airline, airport, service providers or others that can impact the operation of the aircraft. FLYHT has returned to its roots as a Software as a Service ("SaaS") provider with the benefit of having access to data that no other company has. The combination of airborne hardware and software is a powerful driver for Actionable Intelligence.

1. Airborne Hardware

AFIRS™

The Automated Flight Information Reporting System (AFIRS) is a family of devices 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 transmits this information in real-time through various technologies to FLYHT's servers, which use that data to power our solutions which display real-time fleet visualizations and actionable fleet intelligence.

In addition to its data monitoring and flight tracking functions, the AFIRS family of products provides voice and text messaging capabilities in either safety services level security or regular Satcom. The system supports many value-added solutions including tracking aircraft, fuel management and monitoring aircraft health as well as weather observations that include humidity data. FLYHT's global coverage is enabled via various satellite ground based networks, 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 and In (OOOI) times translate directly into optimal crew utilization ensuring flight crews do not 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. This accurate tracking is being transformed into actionable intelligence with ground handling personnel to improve turn times and delay avoidance in schedule disruption.

FLYHT received regulatory certification for installation of AFIRS on most 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. Our inhouse certification group allows us to add new data sources very easily to the reporting capabilities of AFIRS.

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.

FLYHT's 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.

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

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 provides real-time, high-quality atmospheric data collected from 200+ aircraft in North America, Asia, and Europe through frequent soundings (thousands per day except during COVID lockdowns) and continuous observations including all of the metrics of Radiosonde observations plus icing and turbulence.

Like the data traditionally gathered by weather balloons worldwide, the information collected by TAMDAR is used to update weather models. Unlike weather balloons, TAMDAR collects the data continuously and in real-time by transmitting "soundings" or batches of data to airline ground operations or weather offices. The relative humidity data, gathered throughout an aircraft's flight, makes these weather soundings particularly valuable to meteorologists. A recent NOAA article shows the importance of this specialized data.



Conclusions

- Aircraft obs remain the **most important** obs type for rapidly-updating short-range regional NWP models. (2020 paper update from 2017 paper)
- Impacts likely underestimated in this retrospective study due to un-reduced aircraft ob assimilation in GFS (through lateral boundary conditions and via partial cycling).
- COVID-19: Realtime NWP impacts are challenging to detect, but controlled experiments reveal statistically significant increased 6-12h forecast error over US in RAP model from reduced aircraft reports.
- Averaged across summer and winter seasons, and across tropospheric temperature, winds, and RH, **excluding 80% of aircraft obs** leads to a **12%** short-range forecast degradation, compared with **30%** degradation when **all aircraft obs** are denied.
- **Published articles:**
 - Overall obs impact assessment with RAPv3: <https://doi.org/10.1175/MWR-D-16-0398.1>
 - Aircraft-specific experiments and COVID-19: <https://doi.org/10.1175/JAMC-D-20-0010.1>

2. Supporting Applications

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

Actionable Intelligence powered by JetBridge™

FLYHT's ground-based, enterprise servers that manage the AFIRS data and integrated airline and airport systems which have many operational components which aid in aircraft operations, maintenance, and ground operations as well as flight planning and scheduling. The combination of these data sources and machine learning allows the Company to provide Actionable Intelligence to customers to prevent delays and enhance profitability.

FLYHT 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 actually 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.

The unique combination of these tools allows FLYHT 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. Airlines need to align the passenger experience, airline operations and positive working environment for enhanced profit opportunity with a seamless technology partnership.

FLYHT's Actionable Intelligence takes advantage of health monitoring solutions and consists of three different but related functions: automated engine trend reporting, real-time engine and airframe exceedance monitoring, and remote real-time diagnostics to provide instruction to personnel that will improve profitability by reducing communications and remediation actions.

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, these tools also enable proactive management of maintenance and reduces aircraft "turn-times" and downtimes, and subsequently also the operational and financial impact of unscheduled maintenance.

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. The addition of messaging between the aircraft and the ground crews will reduce turn times and therefore enhance profitability for our customers.

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, customers are able to remotely configure their software directly from their custom-configured, ground user interface.

Actionable Intelligence includes 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, 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 privacy regulations.

3. Communications

FLYHT provides two-way text messaging to the flight deck through the multi-control display unit (MCDU) or an iPad application. Updated crew assignments, crew repositioning, and tail swaps can be sent to the aircraft directly and in real-time. Real-time text messaging helps manage diversions due to weather, mechanical issues, or other unforeseen situations making it easy for the flight crew and dispatch personnel to keep each other updated on the progress of their flight or any required deviations from plan. Our latest auxiliary hardware tools provide both power and connectivity to the devices used by the pilots to create a safe reliable platform for EFBs.

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, this 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.

FLYHT has been awarded Canadian, U.S., and Chinese patents for this data-streaming technology, (pending in other countries).

4. Weather Observations

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

Provided as an integrated solution to visualizations in the Actionable Intelligence suite, FLYHT's Weather Observations product provides a visualization of flight information along with weather data and overlays. As well, the interface provides access to the collected "soundings" page which shows Skew-T diagrams (one of four thermodynamic diagrams commonly used in weather analysis and forecasting) from equipped aircraft.

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

System Approvals

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

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

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

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

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

The process to receive an STC 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 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
P										Airbus A330
	A		A						A	ATR42 -300
	A									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							Boeing B737 -900ER
	A									Boeing 747-200
A	A	A	A	A	A	A	A			Boeing 757 -200
A	A	A	A	A	A	A	A			Boeing 767 -200, -300
	A		A							Boeing B777
A	A*	A	A*	A	A*					Bombardier DHC 8 -100, -200, -300 *Avmax
A	A		A							Bombardier DHC 8 -400
A	A	A	A	A	A		A			Bombardier CRJ 100, 200, 440
	A		A		A		A			Bombardier CRJ -700, 900
A		A								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). AFIRS 228 applications are also in progress with the Federal Air Transport Agency of Russia for the Boeing 737, 757 and 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 into the status of the industry. There has been substantial change in industry conditions as a result of 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. As airlines experience financial stress, so do suppliers to that industry, such as FLYHT. For virtually all airlines, cash flow is drastically reduced, and although it has impacted the airline industry's ability to pay for services and capital expansion, in some areas of the world such as the United States things appear to be slowly improving. Still relevant for early 2021, in May 2020 ANNA.aero reported on a global survey authored by Fast Futures, which 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 Q1 2021

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.

Air travel (measured by RPKs) fell again in early 2021 from levels in December 2020, with January 2021 being 72% lower than in the pre-crisis month of January 2020. This setback for the airlines' passenger business was driven by a tightening by governments of travel restrictions across the world, of which many remain in place following the emergence of COVID-19 variants. Most important were restrictions imposed on domestic travel in China. A sharp decline in travel in China's domestic market from a reasonably healthy recovery through the end of 2020 accounted for most of the early 2021 decline in global travel.

The continued weakness of air travel is in marked contrast to the optimism shown outside the aviation sector in stock market prices and in business confidence surveys. This adds to the evidence that there is substantial pent-up demand to fly. Government travel restrictions continues to be the main constraint. The global air travel market deteriorated further in February 2021, as Chinese New Year travel was weaker than usual, and travel restrictions tightened further in several other countries. At the end of September 2020, IATA had reported that Chinese domestic travel had come back to 2019 levels, however, second wave issues obviously affected that recovery. Some rebound looks likely in 2020's second half but Q1 2021, and potentially Q2 2021, will be weaker than expected for the air passenger business.

The air cargo business, in marked contrast to the state of the air passenger business, is flourishing. Volumes (measured by cargo tonne km flown) regained pre-crisis levels in January 2021, with CTKs 1.1% higher than January 2020. Revenues are stronger, as yields remain elevated due to the lack of capacity from the wide body passenger aircraft fleet. Strong cargo revenues are making a difference for some airlines and some long-haul routes (where high yielding cargo can make up for the loss of high yielding business passengers). FLYHT's pre-crisis cargo revenues were 19% of total revenues, offering a partial offset to the large and continuing loss of passenger revenues.

[Defense & Security Monitor](#) reported results from large commercial aircraft manufacturers which reflect the fallout from COVID-19. Boeing and Airbus delivered 77 and 125 commercial jets in Q1 of 2021, compared to 50 and 122 deliveries, respectively, in Q1 of 2020. For the full year 2020, Boeing delivered 157 aircraft, compared to 380 and 806 in 2019 and 2018, respectively. In 2020, Airbus delivered 566 aircraft and won the deliveries crown for the second year in a row. Airbus deliveries were down from 863 and 800 in 2019 and 2018, respectively.

Avweb reported aircraft manufacturer Embraer announced that it delivered a total of 130 aircraft in 2020, a drop of almost 35% compared to 2019. Of the 44 commercial aircraft and 86 executive jets shipped by Embraer in 2020, 71 were handed over in the fourth quarter of 2020. These Q4 2020 deliveries, which were 10 aircraft fewer than the same time period in 2019, included 28 commercial aircraft and 43 executive jets.

Bombardier and De Havilland deliveries have significantly declined over the past year. Bombardier's reduction is a result of the disposal of the CRJ program to Mitsubishi Heavy Industries (MHI), who have in turn ended CRJ production as of December 31, 2020 to focus on their own regional jet model, the MRJ. De Havilland's anticipated reduction in ongoing deliveries for 2021 is the result of a pause in production while they relocate to a new manufacturing facility, due to low current aircraft demand and that their Downsview location lease is set to expire in 2021.

FLYHT's Market

FLYHT's core technology has always been the collection and validation of data on aircraft, communication of that data as well as voice and text communications for the crew of the aircraft. We have leveraged satellite networks to provide real-time communication with aircraft and worked with third party groups using in-flight entertainment systems for communication as well as terrestrial systems and short-range communications. We market to several sectors within the global aerospace industry. The Company's products are broken into 4 main categories:

1. **Airborne systems** which include the AFIRS product family, TAMDAR and various cockpit components.
2. **Actionable Intelligence** which includes the JetBridge™ technology, AHM, Engine performance monitoring and many systems to help manage the aircraft when airborne or on the ground.
3. **Communications** which connect air crews, ground crews, contractors and the operations centre or flight planning personnel with real time data and creates the drivers for Actionable Intelligence.
4. **Weather Systems** which include the observation and reporting of real time humidity and other weather information and systems which add value to that data for routing, conditions monitoring and other applications.

In 2020, FLYHT launched our most advanced SaaS software to date, "Actionable Intelligence". Actionable Intelligence is a sophisticated toolset allowing us to deliver an incredibly valuable entrance into the world of artificial intelligence. FLYHT's Actionable Intelligence provides insight into our customers' total operations to identify areas for improvement. That insight triggers actions based upon rules or previous observations to direct corrective action in near real time. These steps allow the airline to control profitability of their operations, improving customer satisfaction with better on time performance and allows for empowered employees who solve problems on the spot. Airlines need to align the passenger experience, airline operations and positive working environment for enhanced profit opportunity supported by a seamless technology partnership.

FLYHT is an industry leader in the efficiency and safety of aircraft. Over the last year, the Company focused on the development and launch of a cloud-based, scalable solution that enables us to easily ramp-up and increase customers' profitability through the intelligent use of data, current technologies, technology partners and launch customers to direct the high value uses of those technologies. The solution is also 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 Actionable Intelligence capabilities to include additional tracking, data collection, transmission, and analysis to optimize airline operational and maintenance activities. Aircraft health monitoring functions are 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.

Our weather initiatives include 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. TAMDAR technology is protected by several U.S. and worldwide patents and we are currently exploring other applications for this data and new hardware technologies to improve this part of our business.

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'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 relied primarily on retrofitting existing aircraft to provide recurring, real-time aircraft data services. Our focus now is on adding value to the data we collect and transport and helping our customers recognize the best financial results through the innovative use of our technologies.

The Canadian dollar gained strength relative to the U.S. dollar throughout Q1 2021 and the Company experienced a resulting negative impact to net income compared to Q1 2020. As a result of these currency movements, the Company's revenues, which are substantially all denominated in U.S. dollars, were lower than they would have been had the foreign exchange rates not changed between Q1 2020 and Q1 2021. 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.

Environmental, Social and Corporate Governance

Sustainability has been integral to FLYHT's operations for many years. Early initiatives had FLYHT playing a key role in the effort to achieve a paperless cockpit, reducing waste and improving operational efficiency. More recently, FLYHT has been working to improve fuel conservation and reduce emissions by ensuring proper aircraft maintenance and trim. Engine performance monitoring helps further improve engine efficiency for our customers. The development and deployment of tools that help FLYHT and its customers serve as industry leaders in the responsible use of resources is a critical component of our drive toward sustainable growth and profitability. FLYHT's corporate policies are dedicated to achieving a paperless operation, improving efficiency in our use of resources and staying abreast of the UN's Sustainable Development Goals.

FLYHT is committed to diversity, providing an open multicultural friendly workplace that recruits and rewards people based upon skill and most recently focusing on improving our gender mix. Providing an equal opportunity workplace where everyone contributes to the corporate goal of helping the industry FLYHT serves be as efficient as possible is at the core of FLYHT's purpose.

FLYHT is fully committed to do what it takes to succeed in this area and has developed specific goals and action plans that reflect this responsibility.

Results of Operations

Selected Results

	Q1 2021 \$	Q4 2020 \$	Q3 2020 \$	Q2 2020 \$
Assets	12,773,454	13,736,235	15,698,866	17,266,441
Non-current financial liabilities*	4,635,956	5,169,462	7,001,557	7,376,115
Revenue	2,691,275	3,379,186	1,918,410	3,060,157
Cost of sales	1,169,621	1,486,063	590,375	993,846
Gross margin	1,521,654	1,893,123	1,328,035	2,066,311
Gross margin %	56.5%	56.0%	69.2%	67.5%
Distribution expenses	1,003,667	1,529,436	589,830	1,163,957
Administration expenses	769,365	1,240,943	1,030,074	686,489
Research, development and certification engineering expenses	919,636	956,556	1,012,543	440,818
Results from operating activities	(1,171,014)	(1,833,812)	(1,304,412)	(224,953)
Depreciation	170,398	176,702	224,539	199,673
Other income	-	-	-	178,412
EBITDA*	(1,000,616)	(1,657,110)	(1,079,873)	153,132
Income (loss)	(912,068)	(1,999,715)	(1,647,249)	(276,515)
Income (loss) per share (basic)	(0.03)	(0.08)	(0.06)	(0.01)
Income (loss) per share (diluted)	(0.03)	(0.08)	(0.06)	(0.01)
	Q1 2020 \$	Q4 2019 \$	Q3 2019 \$	Q2 2019 \$
Assets	18,513,259	14,736,226	11,529,110	10,988,820
Non-current financial liabilities*	7,073,883	4,618,014	4,685,813	4,862,450
Revenue	5,295,232	4,281,612	5,197,446	6,350,349
Cost of sales	1,325,602	1,595,421	2,674,856	2,141,376
Gross margin	3,969,630	2,686,191	2,522,590	4,208,973
Gross margin %	75.0%	62.7%	48.5%	66.3%
Distribution expenses	2,108,641	1,992,477	1,941,927	2,294,519
Administration expenses	1,099,130	1,199,149	941,060	1,118,420
Research, development and certification engineering expenses	928,325	1,100,961	939,935	1,020,747
Results from operating activities	(166,466)	(1,606,396)	(1,300,332)	(224,713)
Depreciation	267,404	253,614	215,881	191,591
Other income	628,500	641,296	623,544	1,544,756
EBITDA*	729,438	(711,486)	(460,907)	1,511,634
Income (loss)	686,022	(1,212,971)	(777,648)	1,037,326
Income (loss) per share (basic)	0.03	(0.06)	(0.04)	0.05
Income (loss) per share (diluted)	0.03	(0.06)	(0.04)	0.05

*See Non-GAAP Financial Measures

Financial Position

Liquidity and Capital Resource

The Company's cash and cash equivalents at March 31, 2021 decreased to \$3,871,741 from \$5,127,963 at December 31, 2020. 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 March 31, 2021.

The Company funded Q1 2021 operations primarily through the proceeds from cash received from sales, funding obtained from the CEWS and CERS governmental programs, and contributions from the Western Innovation Initiative (WINN). The Company will strive to self-fund operations through the remainder of 2021.

	March 31, 2021 \$	December 31, 2020 \$	Variance \$
Cash and cash equivalents	3,871,741	5,127,963	(1,256,222)
Trade and other receivables	1,811,173	1,587,275	223,898
Contract assets	393,682	187,892	205,790
Deposits and prepaid expenses	680,098	544,052	136,046
Inventory	1,208,551	1,561,959	(353,408)
Trade payables and accrued liabilities	(2,298,863)	(2,128,941)	(169,922)
Customer deposits	(860,318)	(492,679)	(367,639)
Loans and borrowings	(2,325,947)	(2,376,594)	50,647
Lease liability	(636,414)	(679,816)	43,402
Working capital*	1,843,703	3,331,111	(1,487,408)

*See Non-GAAP Financial Measures

As at May 5, 2021 FLYHT's issued and outstanding share capital was 27,529,024.

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. The Company's results showed losses from operating activities in both periods ending Q1 2021 and Q1 2020. At March 31, 2021, the Company had positive working capital of \$1.8 million compared to positive \$3.3 million as of December 31, 2020, a decrease of \$1.5 million. The Company ended Q1 2021 with balances of \$3.9 million in cash and cash equivalents, an undrawn credit facility of \$1.5 million, and \$1.7 million in contributions under WINN loans not yet received.

For the Company to continue as a going concern longer-term, it will need to achieve profitability and positive operating cash flows. The Company will continue to expand its earnings and cash flow potential through its focused marketing efforts, particularly the presentation of Actionable Intelligence tools to our 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 customers and prospects without requisite capital expenditures by them and thereby get back to the Company's core benefit to shareholders of high value SaaS revenue growth.

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

General economic conditions in the industry and the financial condition of major customers may significantly impact the Company's ability to achieve positive earnings and cash flows. The negative impact to the commercial air industry resulting from the COVID-19 pandemic is unprecedented. Since early 2020 FLYHT has been seeing near term implications of the pandemic in all aspects of revenue and trade receivable payments due to the impact of the pandemic on our customers. In Q3 2020 FLYHT began to see some recovery in our customers, with aircraft re-commencing operations as well as receivable payments being made. In Q4 2020 and particularly through Q1 2021 some of that recovery was lost to the second and third waves of the pandemic impacting several parts of the world. There is continued risk until such a time as the industry recovers. There exists a possibility that an extended industry recovery could cause FLYHT

to scale back operations to create positive cash from existing revenue and/or raise the necessary financing in the capital markets through debt and/or equity and, in the limit, become illiquid.

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

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 March 31, 2021.

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. The recoverability of the Company's receivables has been impacted by the consequences of the COVID-19 virus on the global airline industry, which has been reflected in the bad debt reserve throughout 2020 and 2021.

Contractual Obligations

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

March 31, 2021	< 2 months \$	2-12 months \$	1-2 years \$	2-5 years \$	> 5 years \$	Total \$
Accounts payable	1,205,115	5,305	-	-	-	1,210,420
Compensation and statutory deductions	484,720	514,696	64,375	-	-	1,063,791
Accrued liabilities	24,653	-	-	-	-	24,653
Lease payments	159,104	477,311	278,257	822,448	1,442,098	3,179,218
Loans and borrowings	78,000	2,377,918	676,716	3,017,302	1,267,622	7,417,558
Total	1,951,592	3,375,230	1,019,348	3,839,750	2,709,720	12,895,640

Under the Strategic Aerospace and Defence Initiative (SADI), at March 31, 2021 the Company has an outstanding repayable balance of \$1,212,427. The amount is repayable over 15 years on a stepped basis commencing April 30, 2014. The initial payment on April 30, 2014 was 3.5% of the total contribution received and the payment increases yearly by 15% until January 31, 2029 (adjusted from April 30, 2028 in response to the COVID-19 pandemic) when the final payment will be 24.5% of the total contribution received. Repayment of \$157,820 was made in the first quarter of 2021 (Q1 2020: nil).

In November 2016, the Company signed a contribution agreement with Western Economic Diversification Canada for a WINN loan, to support plans for technology development in the air and ground components of the Company's products. Under the terms of the agreement, a repayable unsecured WINN contribution to the value of the lesser of 50% of the eligible project costs to March 31, 2019 or \$2,350,000 was received. The amount is repayable over five years commencing January 1, 2020. Amendments in 2020 adjusted the payment dates due to COVID-19, so that there were no payments scheduled from April – December, 2020 and the final payment date was pushed back to September 2025. Repayments in Q1 2021 totaled \$117,000 (Q1 2020: \$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 this agreement, a repayable unsecured WINN contribution to the value of the lesser of 44% of the eligible project costs to April 30, 2021 or \$2,761,000 will be received, repayable over five years commencing October 1, 2021. Amendments in 2021 extended the timeframe for eligible project cost submission to September 30, 2023 and adjusted the repayment start date to October 1, 2023. At March 31, 2021, the Company had received contributions totaling \$1,003,826 (December 31, 2020: \$788,262).

A summary of the carrying value of the SADI and WINN loans as at March 31, 2021 and 2020 and changes during these quarters is presented below.

	2021 \$			2020 \$		
	SADI	WINN	Total	SADI	WINN	Total
Balance January 1	1,262,090	2,470,580	3,732,670	1,340,262	2,003,235	3,343,497
Received	-	215,564	215,564	-	289,847	289,847
Grant portion	-	(71,913)	(71,913)	-	(50,148)	(50,148)
Interest accretion	48,529	60,724	109,253	60,194	49,458	109,652
Gain on payment deferral	-	(498,042)	(498,042)	-	-	-
Repayment	(157,820)	(117,000)	(274,820)	-	(117,000)	(117,000)
Balance March 31	1,152,799	2,059,913	3,212,712	1,400,456	2,175,392	3,575,848
Less current portion	164,994	439,899	604,893	143,473	438,778	582,251
Non-current portion	987,805	1,620,014	2,607,819	1,256,983	1,736,614	2,993,597

Convertible Debenture

FLYHT issued an aggregate \$2,000,000 of convertible debentures ("Debentures") on July 24, 2018. The Debentures 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. The outstanding debenture face value at March 31, 2021 was \$1,674,359 (December 31, 2020: \$1,674,359).

769,200 warrants (Warrants) were issued to the purchasers of the Debentures. . No warrants from this issue remain outstanding at March 31, 2021.

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 March 31, 2021 and 2020 and changes during these quarters is presented below.

	2021 \$	2020 \$	Variance \$
Balance January 1	1,656,060	1,535,438	120,622
Amortization of issue costs	5,970	6,037	(67)
Accrued interest	59,024	56,275	2,749
Balance, March 31	1,721,054	1,597,750	123,304

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 quarters ending March 31, 2021 and 2020. Payment was received for 22 installation kits in the first quarter of 2021 compared to 20 received in Q1 2020.

	Q1 2021 \$	Q1 2020 \$	Variance \$
Opening balance	492,679	160,706	331,973
Payments received	993,698	1,220,003	(226,305)
Recognized as revenue	(626,059)	(823,194)	197,135
Balance, March 31	860,318	557,515	302,803

Comprehensive Income

Revenue

SaaS is the recurring revenue from the Company's products that allow customers to utilize and analyze data they receive from hardware, use of functions such as the satellite phone 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

	Q1 2021 \$	Q1 2020 \$	Variance \$
SaaS	1,539,825	2,738,654	(1,198,829)
Hardware	831,704	227,684	604,020
Licensing	182,181	2,263,677	(2,081,496)
Technical Services	137,565	65,217	72,348
Total	2,691,275	5,295,232	(2,603,957)

For the quarter ended March 31, 2021, total revenue decreased 49.2% from \$5,295,232 in Q1 2020 to \$2,691,275. An indicator of the financial impact of COVID-19 is the SaaS revenue decrease of 43.8% as compared to the same quarter last year. The Licensing revenue decrease of 92.0% reflects the typical pattern of inconsistent revenue timing in this category.

SaaS revenue decreased in Q1 2021 as compared to Q1 2020 as a large number of customer aircraft continue to be grounded during the global pandemic.

Hardware revenue increased in Q1 2021 as compared to Q1 2020 as several kit orders delayed during 2020 were shipped in the first quarter of 2021. Revenue was recognized for 17 installation kit in Q1 2021, compared to 3 in Q1 2020.

Licensing revenue decreased from Q1 2020 due to differences in the number of modems and associated license fees ordered for delivery in Q1 2021.

Technical Services revenue increased by 111% over Q1 2020. 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:

	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019
SaaS	1,539,825	1,627,421	1,652,001	1,305,049	2,738,654	2,711,228	2,649,345	2,480,880
Hardware	831,704	1,490,709	137,137	450,841	227,684	657,577	1,864,523	1,754,672
Licensing	182,181	48,068	86,033	1,233,096	2,263,677	772,466	589,546	1,501,513
Technical Services	137,565	212,988	43,239	71,171	65,217	140,341	94,032	613,284
Total	2,691,275	3,379,186	1,918,410	3,060,157	5,295,232	4,281,612	5,197,446	6,350,349

	Q1 2021		Q1 2020	
	\$	%	\$	%
United States & Mexico	1,066,088	39.6	3,256,283	61.5
Asia	112,971	4.2	662,459	12.5
China	240,977	9.0	321,846	6.1
Middle East	185,983	6.9	315,142	6.0
Canada	755,760	28.1	280,522	5.3
Australia	74,221	2.8	168,713	3.2
Africa	130,453	4.8	163,814	3.1
Europe	101,703	3.8	47,961	0.9
South/Central America	23,119	0.9	78,492	1.4
Total	2,691,275	100.0	5,295,232	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 Q1 2021 was 43.5% compared to 25.0% in Q1 2020. The increase in gross margin was due to differences in the mix of revenue sources in 2021 versus 2020. Gross margin will fluctuate quarter over quarter depending on the mix of revenue categories.

Gross margin for the last eight quarters was:

	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019
Gross Margin %	56.5	56.0	69.2	67.5	75.0	62.7	48.5	66.3
Cost of Sales	43.5	44.0	30.8	32.5	25.0	37.3	51.5	33.7

Distribution Expenses (Recovery)

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

Major Category	Q1 2021 \$	Q1 2020 \$	Variance \$
Salaries and benefits	959,581	1,476,297	(516,716)
Share based compensation	7,906	10,385	(2,479)
Contract labour	262,780	246,152	16,628
Office	97,740	39,385	58,355
Travel	13,583	106,104	(92,521)
Equipment and maintenance	8,004	15,722	(7,718)
Depreciation	98,420	170,807	(72,387)
Marketing	11,199	4,177	7,022
Government grants	(142,263)	-	(142,263)
Bad debt reserve	(313,283)	39,612	(352,895)
Total	1,003,667	2,108,641	(1,104,974)

Distribution expenses decreased 52.4% from Q1 2020 to Q1 2021, due mainly to differences in people costs, including associated government payroll funding.

Salaries and benefits have decreased due to reductions in staff, reflecting changes resulting from the Company's 2020 strategy pivot to increased emphasis on the development and sale of SaaS solutions.

Office expenses are higher in 2021 compared to 2020 due to the mid-2020 move to a new corporate office in Calgary as well as increased market intelligence needs to support the Company's sales strategy.

Travel expenses have decreased as travel plans were halted after Q1 2020 and events have been cancelled throughout the pandemic. As an alternative, the Company has continued these important communications by using online meeting tools.

Depreciation expense was higher in Q1 2020 than 2021, as the move to a new headquarters in Calgary in mid-2020 accelerated depreciation on the former premises in the first half of 2020.

Government grants comprise 2021 funding received via Canadian governmental funding programs (CEWS and CERS) in support of businesses throughout the pandemic, relating to expenses in both the salaries and office categories.

Bad debt reserve quarter over quarter variances reflects differences in bad debt estimates in Q1 2021 compared to Q1 2020.

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	Q1 2021 \$	Q1 2020 \$	Variance \$
Salaries and benefits	312,690	590,452	(277,762)
Share based compensation	38,747	23,304	15,443
Contract labour	166,016	101,044	64,972
Office	139,990	132,731	7,259
Legal fees	30,101	12,843	17,258
Audit and accounting	47,637	43,103	4,534
Investor relations	14,882	30,094	(15,212)
Travel	1,255	52,778	(51,523)
Equipment and maintenance	129,718	56,863	72,855
Depreciation	29,308	49,602	(20,294)
Government grants	(141,140)	-	(141,140)
Other	161	6,316	(6,155)
Total	769,365	1,099,130	(329,765)

Administration expenses decreased by 30.0% from Q1 2020 to Q1 2021.

Salaries and benefits have decreased due to staffing reductions and the re-prioritization of staff into the Distribution and Research and Development functional areas. A portion of this decrease has been offset by increases in **Contract Labour**.

Travel expenses decreased as international travel was halted after Q1 2020 and all in-person conventions and conferences were cancelled throughout the pandemic. As an alternative, the Company has continued these important communications by using online meeting tools.

Equipment and maintenance increases reflect the spend required in moving to online communication and collaboration tools which have allowed the Company's staff to operate within a flexible work environment, ensuring the team continues to be productive and effective throughout the pandemic.

Government grants comprises 2021 funding received via Canadian government programs (CEWS and CERS) in support of businesses throughout the pandemic, relating to expenses in both the salaries and office categories.

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	Q1 2021 \$	Q1 2020 \$	Variance \$
Salaries and benefits	960,974	822,105	138,869
Share based compensation	4,500	2,248	2,252
Contract labour	13,700	64,869	(51,169)
Office	59,769	13,480	46,289
Travel	-	16,180	(16,180)
Equipment and maintenance	3,930	1,757	2,173
Components	80	10,733	(10,653)
Depreciation	42,670	46,995	(4,325)
Government grants	(166,387)	(50,148)	(116,239)
Other	400	106	294
Total	919,636	928,325	(8,689)

Research and Development expenses were 0.9% lower in Q1 2021 compared to the prior year's first quarter. The main contributor to the variances were increased people costs as the Company invests in developing the Actionable Intelligence suite of products, partially offset by government grants received. Research and development costs vary according to specific project requirements.

Salaries and benefits expense increased in 2021 to meet the requirements of R&D-type projects, offset partially by decreases in **Contract labour**.

Office expenses are higher in the first quarter of 2021 compared to 2020 due partially to the mid-2020 move to a new corporate office in Calgary as well as increased investment in employee training, particularly in the Agile development methodology and various other development software and tools.

Government grants variances reflect differences in pandemic support received via Canadian government programs (CEWS and CERS), and in differing levels of expenses eligible for funding under the WINN program in each period. Recoveries relating to WINN funding are the portion of the amounts received from WINN that have been accounted for as a grant.

Net Finance Costs

Major Category	Q1 2021 \$	Q1 2020 \$	Variance \$
Interest income	(3,679)	(22,180)	18,501
Net foreign exchange loss (gain)	29,332	(407,143)	436,475
Bank service charges	8,362	8,432	(70)
Other gain (loss)	(498,042)	-	(498,042)
Interest expense	30,834	24,940	5,894
Government loan accretion	109,253	109,652	(399)
Debenture interest and accretion	64,994	62,311	2,683
Net finance costs	(258,946)	(223,988)	(34,958)

Net foreign exchange loss (gain) will vary between periods due mainly to fluctuations in the value of the Canadian dollar in relation to the U.S. dollar. A strengthening of the Canadian dollar in Q1 2021 gave rise to foreign exchange losses in Q1 2021 versus exchange gains in Q1 2020 on U.S. dollar denominated sales and purchases, in combination with fluctuations in U.S. denominated assets and liabilities.

Other gain is the recognition of the benefit derived from payment deferral of the Company's government loans.

Net Income (Loss)

Major Category	Q1 2021 \$	Q1 2020 \$	Variance \$
Net income (loss)	(912,068)	686,022	(1,598,090)

Other income

All subsidies and reconciling items from the October 2018 asset acquisition of Panasonic Weather Solutions were recognized by the end of Q2 2020. No other income was recognized in Q1 2021.

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

General economic conditions in the industry and the financial condition of major customers may significantly impact the Company's ability to achieve positive earnings and cash flows. The negative impact to the commercial air industry resulting from the COVID-19 pandemic is unprecedented. Since early 2020 FLYHT has been seeing near term implications of the pandemic in all aspects of revenue and trade receivable payments due to the impact of the pandemic on our customers. In Q3 2020 FLYHT began to see some recovery in our customers, with aircraft re-commencing operations as well as receivable payments being made. In Q4 2020 and particularly through Q1 2021 some of that recovery was lost to the second and third waves of the pandemic impacting several parts of the world. There is continued risk until such a time as the industry recovers. There exists a possibility that an extended industry recovery could cause FLYHT to scale back operations to create positive cash from existing revenue and/or raise the necessary financing in the capital markets through debt and/or equity and, in the limit, become illiquid.

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 formerly hosted in the United States was fully migrated to AWS in 2020, minimizing the risk of possible system disruption that would negatively impact FLYHT's customers.

All the enterprise services exist with the possibility that their security could be compromised. FLYHT uses best practices to ensure that the services are as secure as practical and periodically engages third parties for security assessment and to test the penetrability of the systems according to best practices within the enterprise community. A security breach could expose data to external, unauthorized third parties and cause various contractual breaches. To date, no such breach has knowingly occurred on any of the Company's systems. FLYHT will continue to monitor and improve our solutions, including the security aspect. 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 continually documents and distributes the specified knowledge among several key individuals. This reduces risk and ensures the Company can still function effectively were it to lose specialized staff.

Dependence on new products

As development of the AFIRS 228, FlightLink and TAMDAR product lines is complete, FLYHT continues to build out its Supplemental Type Certificate portfolio for these products. 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 Enterprise suite of applications including 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 has been installed on over 300 aircraft for the purposes of collecting weather data. FLYHT supplies this weather data to Synoptic Data PBC as part of their participation in the National Mesonet program. FLYHT is receiving revenues from Synoptic based upon this participation, which is correlated to the number and quality of the weather soundings provided. If these observations fall in number or if they are not perceived to have the original perceived value, then the existing payments for the TAMDAR 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 invest in quality control programs to ensure that the sensors are properly calibrated and producing valid and valuable data, and to supplement this data whenever possible with AMDAR weather data. 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 has been used for many years but more recently they moved to issuing three-year grants to Iridium Communications Inc. versus the former annual grant system. 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.

Transactions with Related Parties

A company related to an officer of FLYHT provided marketing services in Q1 2021. All of the transactions with the related party were at terms equivalent to those that prevail in arm's length transactions and were supported by a third party receipt.

	For the three months ended March 31	
	2021	2020
Amounts included in:	\$	\$
Contract labour	31,500	-
Accounts payable	10,500	-

Government Grants

In the quarter ended March 31, 2021, the Company recognized \$377,877 in government financial relief related to COVID-19 (Q1 2020: nil). \$142,263, \$141,140 and \$94,474 have been applied to offset associated expenses in Distribution, Administration, and Research & Development expenses respectively.

The \$71,913 grant portion of the contributions received from WINN during Q1 2021 (Q1 2020: \$50,148) was offset against associated expenses in Research & Development expense.

Subsequent Event

As announced on [April 26, 2021](#), the Company has executed a settlement agreement and mutual release (in respect of any claims between the parties) in respect of the litigation between Thomas R. Schmutz (former Chief Executive Officer of FLYHT) and the Company. The parties have agreed FLYHT will pay Mr. Schmutz \$225,000 CAD and 250,000 common shares in the Company. All of the common shares issued pursuant to the settlement agreement are subject to a 4-month hold period. The settlement is conditional upon final approval for the issuance of the common shares by the TSX Venture Exchange.

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