

2021

THIRD QUARTER

FLYHT AEROSPACE SOLUTIONS LTD.



Table of Contents

Letter to Shareholders.....	4
Management Discussion & Analysis.....	5
Non-GAAP Financial Measures.....	5
Forward-Looking Statements.....	5
FLYHT Overview.....	6
Trends and Economic Factors.....	11
Environmental, Social and Corporate Governance	13
Results of Operations	13
Selected Results	14
Financial Position	14
Comprehensive Income	18
Other	22
Auditors' Involvement.....	26
Condensed Consolidated Interim Statements of Financial Position (Unaudited)	27
Condensed Consolidated Interim Statements of Comprehensive Loss (Unaudited)	28
Condensed Consolidated Interim Statements of Changes in Equity (Unaudited)	29
Condensed Consolidated Interim Statements of Cash Flows (Unaudited)	30
Notes to the Condensed Consolidated Interim Financial Statements	31
Corporate Information	36

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
BDC:	Business Development Bank of Canada
CAAC:	Civil Aviation Administration of China
CARES:	The Coronavirus Aid, Relief, and Economic Security Act
CERS:	Canada Emergency Rent Subsidy
CEWS:	Canada Emergency Wage Subsidy
CPDLC	Controller Pilot Data Link Communications
DAO:	Design Approval Organization
DGAC:	Dirección 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
HASCAP:	Highly Affected Sectors Credit Availability Program
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



A year and a half into a global pandemic that continues to create challenges for our customers, the FLYHT team is hard at work reinventing our business model to ensure that we emerge as the global aviation leader in Actionable Intelligence when this is all said and done. We have sharpened our strategic focus, shifting the company from a provider of Satcom hardware to SaaS solutions. We have extended our technology leadership, launching the world's first 5G/LTE Quick Access Recorder (wQAR) and introduced the first comprehensive AI solution for airlines. We have been very fortunate in the ability to attract and maintain a great team to build and deliver our new products to both our existing and new customers. We have increased our sales force, paid off all of our debt outside of government low coupon long-term debt, and continue to see strengthening in both the OEM part of our business and the SaaS business. We completed the purchase of complementary technology in the weather space with the purchase of the WVSS-II technologies from SpectraSensors Inc. We are getting great support from the weather community for rescuing this technology and together with our

TAMDAR product, now have humidity sensor equipment for any type of aircraft. Over the next short while, we will be working with major agencies around the world to map out how these technologies will be deployed.

We have seen good year-over-year growth with revenues over \$3 million in the third quarter of 2021 compared to less than \$2 million last year, a 50% increase in revenue. Our gross margin improved as well to \$2.16 million from \$1.98 million from last year and our EBITDA loss was \$0.73 million, compared to \$1.08 million in 2020. While we continue to see slow recovery of the industry, everyone we talk to speaks to the pent up demand for travel. Since all of our customers survived the devastation, we feel the recovery will come for our revenues in lock step with the recovery of the industry. The raise of funds in the quarter leaves us in a very healthy place to grow our business significantly faster than the recovery of the industry.

Our development teams have been hard at work on both the AFIRS Edge product and our Actionable Intelligence tools. FLYHT's sales force is now equipped with both the tools necessary to take it to the world and teams in place to start rolling it out to our customers. We are very excited about the fantastic capabilities that have been developed over the last year and look forward to the continued strengthening of our customers and our business along side them.

As always, we thank our loyal customers, shareholders and board for their support, and I thank the FLYHT team for their adaptability to be very productive during extremely unusual times, as we all can't wait for normal to return.

Yours Truly,

A handwritten signature in blue ink, appearing to read 'W. Tempany'.

William T. Tempany
Interim Chief Executive Officer

MANAGEMENT DISCUSSION & ANALYSIS

This management discussion and analysis ("MD&A") is as of November 4, 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 September 30, 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, thereby 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 transmits 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 together and provide excellent value to our customers by having customizable access to real-time data from the aircraft. By integrating with information from airlines, airports, service providers and others we can improve airline operations. 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.

AFIRS Edge™

The Edge is FLYHT's latest addition to the AFIRS hardware family and is delivered as an extensible multifunction avionics platform. The Edge's modular functionality allows different configurations and features to be implemented as an airline needs them. Communication options include 5G/4G/3G cellular capabilities, a modular Iridium Certus SatCom, and incorporation with existing onboard broadband solutions.

AFIRS Edge turn-key applications include Aircraft Interface Device functionality (ARINC 834 compliant), a multi-channel wireless Quick Access Recorder, bulk aircraft system data acquisition and recording, and AFIRS analytics through our enhanced, customized ACMS.

The wQAR function of the Edge provides an industry-first move towards 5G transmission of aircraft data. By using the most efficient method of data transfer off an aircraft, data volumes can be increased while cost of transmission decreases. The fully compliant 4G/3G features provide compatibility while existing ground cellular infrastructures are updated. With the future of 5G expected to last beyond 2040, the wQAR functions of the Edge provide an opportunity for airlines to upgrade their wQAR capabilities in one move that will serve them for years.

The Edge provides a configurable airborne platform for FLYHT to implement current and future Actionable Intelligence solutions for our customers and the industry.

FLYHT WVSS-II (Water Vapour Sensing System)

The FLYHT WVSS-II is an externally mounted aircraft sensor that detects and reports water vapor as relative humidity. This RH value is incorporated with other aircraft weather information to generate Aircraft Based Observations (ABOs) which can be fed to different weather models around the world.

ABOs are grouped together during the takeoff/ascent and descent/landing phases of a flight to generate soundings. By adding relative humidity to the standard AMDAR payload, FLYHT significantly increases the value of our weather offering. A FLYHT WVSS-II can be paired with an AFIRS 228 unit, or with an AFIRS Edge for transmission of weather sounding data in real-time.

As with AMDAR and TAMDAR soundings, FLYHT WVSS-II enhanced ABOs can be provided to government and private weather modeling systems around the world. Industry standardized and accepted formats for data transmission of weather data to these models is maintained.

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-19 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.

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 manage AFIRS data and integrated airline and airport systems which have many operational components aiding 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 is introducing a suite of Actionable Intelligence solutions that are powered by JetBridge. While every Actionable Intelligence product will thrive with real-time inputs from an AFIRS unit, the broader approach to incorporate third-party inputs allows FLYHT's products to be leveraged in any airline environment.

FleetWatch

An airline's fleet situational awareness remains a primary objective of any Operations Control Centre (OCC). FLYHT's FleetWatch provides a configurable fleet wide situational awareness platform. In addition to taking direct inputs from any AFIRS unit, FleetWatch can incorporate third-party inputs as part of its situational display.

Unlike traditional Aircraft Situational Displays, FleetWatch incorporates the concept of Actionable Intelligence into its design. The primary user interface is not only a source of real-time aircraft position and state but is also a tool for OCCs to receive Actionable Intelligence information. Information relevant to the efficient operation of an airline is directly displayed in FleetWatch.

Airline operations that need immediate attention or that require direct action from staff can be displayed on the FleetWatch main page. By providing this real-time status, with meaningful information, airline staff are immediately notified when situations requiring their attention are needed. From identifying a fault while airborne to instructing ground crews of un-needed APU operation, FleetWatch will be a primary conveyor of Actionable Intelligence to our airline customers.

FuelSense

The FuelSense application provides insight to an airlines management and usage of fuel. By providing targeted guidance through impactful decision support, airline operational change can be achieved. Rather than relying on only historical data, FuelSense incorporates the concept of Actionable Intelligence to provide meaningful information to an operator. Actively minimizing APU usage, optimizing flight planning procedures, and identification of various unplanned events allow an airline to take advantage of FuelSense information.

By incorporating the information made available from FuelSense into other FLYHT products, FuelSense becomes a generator of Actionable intelligence that can be shared with other JetBridge powered applications.

ClearPort

By providing a clear view into the turn process of an aircraft, ClearPort allows an airline to move beyond reporting of operational delays into a state where Actionable Intelligence can be used to manage and avoid situations that affect operations. By focusing on the problems and ignoring flights that are running smoothly, ClearPort draws attention to and provides options for ground crews to manage aircraft turns.

During a turn, critical above and below wing milestones provide an opportunity to assess the likelihood that the aircraft will be ready for an on-time departure. By providing Actionable Intelligence to the appropriate ground crew members in real-time, ClearPort provides corrective action before a delay is encountered.

As a turn-key solution, ClearPort displays updated aircraft turn information without costly integration with airline systems. This reduces an airlines IT involvement in an implementation.

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.

Acquisition of WVSS-II Product Line

FLYHT acquired the WVSS-II product line from SpectraSensors Inc. in September 2021. The acquisition included manufacturing assets, inventory, aviation-specific intellectual property, and a license to SpectraSensors' Tunable Diode Laser Absorption Spectroscopy ("TDLAS") technology for use in the weather and aviation markets. The WVSS-II product enhanced FLYHT's weather business by adding additional hardware, integration and recurring revenue sources to its existing TAMDAR and AMDAR programs.

The WVSS-II is a sensor installed on aircraft and provides water vapour measurements in near real-time throughout an aircraft's flight. These observations directly benefit weather forecasting and improve weather support to aviation. There are broad use cases for WVSS-II data. For airlines, forecasters rely on WVSS-II data to determine the location and timing of fog, cloud formation, altitude of cloud ceilings, and precipitation types; this information is critical to determine safe conditions for aircraft travel. Beyond airlines, this data enables industry organizations to provide more accurate weather and climate forecasts leading to increased societal and economic benefits.

A recent NOAA study showed that these aircraft-based observations are critical for rapidly updating numerical weather prediction models and reducing numerical weather prediction forecast error up to 15-20%. This improvement has the potential to save airlines money by avoiding air traffic delays, which have raised annual airline operating costs by over \$8 billion in the U.S. alone. Weather accounts for 70% of all air traffic delays within the U.S. National Airspace, and almost two-thirds of these delays are potentially avoidable.

The WVSS-II product line was purchased by FLYHT from SpectraSensors Inc. for \$500,000 USD.

System Approvals

FLYHT holds FAA Parts Manufacturer Approval (PMA), is a TCCA Approved Manufacturer, a TCCA Approved Maintenance Organization (AMO) and an FAA, 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 STC's 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 STC's and TSO's 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 STC's, 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 228 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	A	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			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

STC Chart: AFIRS Edge

TCCA Canada	FAA USA	EASA EU	CAAC China	ANAC Brazil	
I					Boeing B737 -600, -700, -800

Chart Legend: A = Approved, P = Pending (Provisions STC has been received; in final stages before receiving a full STC), I = 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 continue to face 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 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; and
- Recovery is expected to take two to three years

The Aviation Industry in Q3 2021

International Air Transport Association's (IATA) industry results¹, 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.

While air travel (measured by RPKs) had fallen in early 2021 from levels in December 2020, with January 2021 being 72% lower than in the pre-crisis month of January 2020, it has since increased throughout 2021. The setback in 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. Travel restrictions across the world are loosening and slowly being lifted, supporting optimism for global air recovery.

The uneven pace of recovery 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, as government travel restrictions continue to be modestly eased. 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, remaining in place through Q3 2021. At the end of September 2020, IATA had reported that Chinese domestic travel had come back to 2019 levels², however, subsequent wave issues obviously affected that recovery. Domestic rebound continues to rise in Q3 of 2021 despite a dip in August; and we are seeing forecasts that intra-Europe and Europe – North America travel will outpace Asia.

The air cargo business, in contrast to the state of the air passenger business, continues to flourish. Volumes (as measured by cargo tonne km flown) regained pre-crisis levels throughout 2021, with August 2021 CTKs 7.7% above pre-crisis levels when compared to that of August 2019. 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 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 85 and 127 commercial jets in Q3 of 2021, compared to 28 and 145 deliveries, respectively, in Q3 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.

Reuters reported aircraft manufacturer Embraer announced that it delivered a total of 30 jets in Q3 2021, up 7.1% from a year earlier, however down 11.7% from the previous quarter.

¹ <https://www.iata.org/en/iata-repository/publications/economic-reports/airline-industry-economic-performance---october-2021---presentation/>

² <https://www.iata.org/en/iata-repository/publications/economic-reports/regional-briefing---north-asia---october-2021/>

³ <https://www.reuters.com/business/aerospace-defense/brazils-embraer-delivers-30-jets-q3-sees-168-qln-backlog-2021-10-21/>

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 in turn ended CRJ production as of December 31, 2020 to focus on their own regional jet model, the MRJ, which has also been put on hold as of November 2021⁴. 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

The collection and validation of data on aircraft, communication of that data, and voice and text communications for the crew of the aircraft has always been at the core of FLYHT's technology. The last 15 months have been focused on a vision of adding value to that data, helping our airline customers manage their day of operations costs with Actionable Intelligence driven by data from the aircraft combined with airline and airport systems. The Company's products are broken into 4 main categories:

- Airborne Systems which include the AFIRS product family including the AFIRS Edge, a wQAR announced in June 2021, TAMDAR, an industry leading airborne humidity sensor and various cockpit components;
- 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;
- 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 and EFB applications which provide up to date communications for the flight crew; and
- 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 the profitability of their operations, improving customer satisfaction with better on time performance and allows for empowered employees who are able to 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 past year, the Company has 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 can 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.

Designed to enhance the JetBridge™ suite or to work as a standalone solution integrated with existing airline solutions, this year a new entrant to the AFIRS product family was launched, "AFIRS Edge". The AFIRS Edge solution continues our tradition of gathering aircraft system data and performing edge computation for subsequent off-aircraft delivery; however, it raises the bar in every aspect. Leveraging a relationship with Amazon to utilize their technologies and services, the AFIRS Edge solution is built from the ground up to support "Internet of Things" capabilities. This includes the traditional AFIRS data gathering but expands into a wholly modular approach, providing customers the flexibility to buy only the capabilities they need while also allowing for easy scalability in the future. This one solution expands FLYHT's markets into big-data-on-the-aircraft bulk data harvesting using the world's first 5G aircraft communications, cockpit internet connectivity, wireless quick access recording, electronic flight bag solutions, and expanded global satellite options.

FLYHT's Weather Systems measure relative humidity data, gathered throughout an aircraft's flight, which makes inflight 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 re-routing for airport closures or planning 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.

⁴ www.smartaviation-apac.com/2021/10/mitsubishi-aircraft-tells-faa-it-has-shelved-spacejet-for-three-years/

The Canadian dollar weakened relative to the U.S. dollar through most of Q3 2021 and the Company experienced a resulting positive impact to net income compared to Q3 2020. 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 between Q3 2020 and Q3 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.

Q3 2021 Contracts, Achievements and Activities

Contracts

FLYHT received \$1.5 million USD in new sales contracts and purchase orders in Q3 2021. 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 follow-on order from a long-time OEM partner for \$1.5 million USD in Iridium modems and license fees.

Achievements & Activities

- Acquisition from SpectraSensors Inc. of WVSS-II (water vapor sensing system) hardware and intellectual property
- Repayment in full of outstanding secured convertible debenture of \$1.8 million
- Closed a non-brokered private placement of \$6.6 million to facilitate corporate growth initiatives

Results of Operations

Selected Results

	Q3 2021 \$	Q2 2021 \$	Q1 2021 \$	Q4 2020 \$
Assets	14,675,428	11,181,967	12,773,454	13,736,235
Non-current financial liabilities*	4,948,252	5,018,668	4,635,956	5,169,462
Revenue	3,173,331	2,926,122	2,691,275	3,379,186
Cost of sales	1,010,084	1,393,065	1,169,621	1,486,063
Gross margin	2,163,247	1,533,057	1,521,654	1,893,123
Gross margin %	68.2%	52.4%	56.5%	56.0%
Distribution expenses	1,000,059	896,024	1,003,667	1,529,436
Administration expenses	786,699	741,109	769,365	1,240,943
Research, development and certification engineering expenses	1,359,405	1,048,841	919,636	956,556
Results from operating activities	(982,916)	(1,152,917)	(1,171,014)	(1,833,812)
Depreciation	170,950	172,306	170,398	176,702
Other income	-	-	-	-
EBITDA*	(811,966)	(980,611)	(1,000,616)	(1,657,110)
Income (loss)	(1,107,195)	(1,395,889)	(912,068)	(1,999,715)
Income (loss) per share (basic)	(0.03)	(0.05)	(0.03)	(0.08)
Income (loss) per share (diluted)	(0.03)	(0.05)	(0.03)	(0.08)
	Q3 2020 \$	Q2 2020 \$	Q1 2020 \$	Q4 2019 \$
Assets	15,698,866	17,266,441	18,513,259	14,736,226
Non-current financial liabilities*	7,001,557	7,376,115	7,073,883	4,618,014
Revenue	1,918,410	3,060,157	5,295,232	4,281,612
Cost of sales	590,375	993,846	1,325,602	1,595,421
Gross margin	1,328,035	2,066,311	3,969,630	2,686,191
Gross margin %	69.2%	67.5%	75.0%	62.7%
Distribution expenses	589,830	1,163,957	2,108,641	1,992,477
Administration expenses	1,030,074	686,489	1,099,130	1,199,149
Research, development and certification engineering expenses	1,012,543	440,818	928,325	1,100,961
Results from operating activities	(1,304,412)	(224,953)	(166,466)	(1,606,396)
Depreciation	224,539	199,673	267,404	253,614
Other income	-	178,412	628,500	641,296
EBITDA*	(1,079,873)	153,132	729,438	(711,486)
Income (loss)	(1,647,249)	(276,515)	686,022	(1,212,971)
Income (loss) per share (basic)	(0.06)	(0.01)	0.02	(0.06)
Income (loss) per share (diluted)	(0.06)	(0.01)	0.02	(0.06)

*See Non-GAAP Financial Measures

Financial Position

Liquidity and Capital Resource

The Company's cash and cash equivalents at September 30, 2021 increased to \$5,355,302 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, 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 accounts receivable, cash collateral in the form of a Guaranteed Investment Certificate, 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 at September 30, 2021.

The Company funded Q3 2021 operations primarily through proceeds from cash received from a non-brokered private placement, the proceeds from cash received from sales, and funding obtained from the CEWS and CERS governmental programs. WINN funding typically received each quarter was delayed in Q3 and was instead received in early Q4. The Company will strive to self-fund operations through the remainder of 2021 and into 2022.

	September 30, 2021	December 31, 2020	Variance
	\$	\$	\$
Cash and cash equivalents	5,355,302	5,127,963	227,339
Trade and other receivables	1,978,188	1,587,275	390,913
Contract assets	172,797	187,892	(15,095)
Deposits and prepaid expenses	450,355	544,052	(93,697)
Inventory	1,455,061	1,561,959	(106,898)
Trade payables and accrued liabilities	(1,717,060)	(2,128,941)	411,881
Customer deposits	(534,911)	(492,679)	(42,232)
Loans and borrowings	(648,468)	(2,376,594)	1,728,126
Lease liability	(460,276)	(679,816)	219,540
Current tax liabilities	(1,322)	-	(1,322)
Working capital*	6,049,666	3,331,111	2,718,555

*See Non-GAAP Financial Measures

As at November 4, 2021 FLYHT's issued and outstanding share capital was 36,416,109.

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 continuing to manage outgoing cash flows. The Company's results showed losses from operating activities in both periods ending Q3 2021 and Q3 2020. At September 30, 2021, the Company had positive working capital of \$6.0 million compared to positive \$3.3 million as of December 31, 2020, an increase of \$2.7 million. The Company ended Q3 2021 with balances of \$5.4 million in cash and cash equivalents, an undrawn credit facility of \$1.5 million, and \$1.4 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 return 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 throughout the first three quarters of 2021 that recovery varied due to the second, third and fourth waves of the pandemic impacting several parts of the world, and the impact of the latest variants. 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 at September 30, 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 was 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.

September 30, 2021	< 2 months \$	2-12 months \$	1-2 years \$	2-5 years \$	> 5 years \$	Total \$
Accounts payable	1,099,471	-	-	-	-	1,099,471
Compensation and statutory deductions	265,231	223,966	-	-	-	489,197
Accrued liabilities	128,392	-	-	-	-	128,392
Lease payments	159,974	300,302	269,647	829,813	1,303,115	2,862,851
Loans and borrowings	78,000	583,067	704,494	3,147,357	1,394,937	5,907,855
Total	1,731,068	1,107,335	974,141	3,977,170	2,698,052	10,487,766

Government Loans

Funding obtained via four governmental programs are included in the Loans and Borrowings totals on the SFP.

Under the Strategic Aerospace and Defence Initiative (SADI), at September 30, 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. No repayment was made in the third quarter of 2021 (Q3 2020: nil). The carrying value of the amount owing under this program at September 30, 2021 is \$1,253,025 (September 30, 2020: \$1,389,018).

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 through December 2020 and the final payment date was pushed back to September 2025. Repayments in Q3 2021 totaled \$117,000 (Q3 2020: nil). The carrying value of the amount owing under this program at September 30, 2021 is \$1,551,836 (September 30, 2020: \$1,779,807).

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 September 30, 2021, the Company had received contributions totaling \$1,284,548 (December 31, 2020: \$788,262). The carrying value of the amount owing under this program at September 30, 2021 is \$597,723 (September 30, 2020: \$554,333).

In May 2021, the Company received funding of \$250,000 through the BDC's [HASCAP](#) loan program, designed to support small and medium sized businesses affected by COVID-19. This loan carries interest of 4% per annum over a 10-year term commencing May 10, 2021. Payments in the first year following funding are comprised of interest only, with the principal and accrued interest payable over the remaining 9 years. The carrying value of the amount owing under this program at September 30, 2021 is \$250,000 (September 30, 2020: nil).

A summary of the carrying value of the government loans as at September 30, 2021 and 2020 and changes during these three and nine months is presented below.

	For the three months ended September 30			For the nine months ended September 30		
	2021 \$	2020 \$	Variance \$	2021 \$	2020 \$	Variance \$
Opening Balance	3,645,479	3,777,058	(131,579)	3,732,670	3,343,497	389,173
Received	-	70,625	(70,625)	746,286	474,747	271,539
Grant Portion	-	(14,460)	14,460	(169,003)	(88,955)	(80,048)
Interest accretion	124,105	113,335	10,770	349,493	334,269	15,224
Gain on payment deferral	-	(223,400)	223,400	(498,042)	(223,400)	(274,642)
Repayment	(117,000)	-	(117,000)	(508,820)	(117,000)	(391,820)
Carrying amount at September 30	3,652,584	3,723,158	(70,574)	3,652,584	3,723,158	(70,574)
Less current portion	648,468	553,035	95,433	648,468	553,035	95,433
Non-current portion	3,004,116	3,170,123	(166,007)	3,004,116	3,170,123	(166,007)

Convertible Debenture

The Company issued debentures with a face value of \$2,000,000 on July 24, 2018. These debentures matured on July 24, 2021 and bore interest at a rate of 8% per annum, which was accrued and paid annually in arrears. All debentures that were not converted prior to maturity were repaid in full on July 23, 2021, including all outstanding secured convertible debentures (CAD\$1.7 million) and all accrued and unpaid interest.

The Debentures were secured against all personal property of the Company and were 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 September 30, 2021 and 2020 and changes during these three and nine months is presented below.

	For the three months ended September 30			For the nine months ended September 30		
	2021 \$	2020 \$	Variance \$	2021 \$	2020 \$	Variance \$
Opening Balance	1,788,874	1,662,056	126,818	1,656,060	1,535,438	120,622
Amortization of issue costs	1,592	6,103	(4,511)	13,600	18,177	(4,577)
Accrued interest	17,842	57,478	(39,636)	138,648	172,022	(33,374)
Debenture Retirement	(1,674,359)	-	(1,674,359)	(1,674,359)	-	(1,674,359)
Interest paid	(133,949)	(133,949)	-	(133,949)	(133,949)	-
Carrying amount at September 30	-	1,591,688	(1,591,688)	-	1,591,688	(1,591,688)
Less current portion	-	138,091	(138,091)	-	138,091	(138,091)
Non-current portion	-	1,453,597	(1,453,597)	-	1,453,597	(1,453,597)

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 nine months ending September 30, 2021 and 2020. Payment was received for 9 installation kits in the third quarter of 2021 compared to 3 received in the third quarter of 2020. In the nine months ended September 30, 2021 payment was received for 48 kits, compared to 19 in the same period of 2020.

	Q3 2021 \$	Q3 2020 \$	Variance \$	YTD 2021 \$	YTD 2020 \$	Variance \$
Opening balance	477,209	743,841	(266,632)	492,679	160,706	331,973
Payments received	435,903	309,778	126,125	2,199,440	2,108,492	90,948
Recognized as revenue	(378,201)	(631,754)	253,553	(2,157,208)	(1,847,333)	(309,875)
Balance, September 30	534,911	421,865	113,046	534,911	421,865	113,046

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

	Q3 2021 \$	Q3 2020 \$	Variance \$	YTD 2021 \$	YTD 2020 \$	Variance \$
SaaS	1,507,366	1,652,001	(144,635)	4,493,411	5,695,706	(1,202,295)
Hardware	567,356	137,137	430,219	2,803,252	815,661	1,987,591
Licensing	1,004,698	86,033	918,665	1,194,804	3,582,805	(2,388,001)
Technical Services	93,911	43,239	50,672	299,261	179,627	119,634
Total	3,173,331	1,918,410	1,254,921	8,790,728	10,273,799	(1,483,071)

For the three months ended September 30, 2021, total revenue increased 65.4% from \$1,918,410 in Q3 2020 to \$3,173,331. An indicator of the beginning of recovery from the financial impact of COVID-19 is the hardware revenue increase of 313.7% as compared to the same quarter last year. The Licensing revenue increase of 1067.8% reflects the typical pattern of inconsistent revenue timing in this category.

SaaS revenue decreased in Q3 2021 as compared to Q3 2020 as customers' flight hours and active aircraft in some geographies have dropped again with the fourth wave of the pandemic. The pandemic low in FLYHT's SaaS billed to customers was experienced in Q2 2020.

Hardware revenue increased in Q3 2021 as compared to Q3 2020 as several customers have begun to move forward with kit orders again. Revenue was recognized for 4 installation kits in Q3 2021, compared to 1 in Q3 2020.

Licensing revenue increased from Q3 2020 due to differences in the number of modems and associated license fees ordered for delivery in Q3 2021.

Technical Services revenue increased in Q3 2021 as compared to Q3 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:

	Q3 2021	Q2 2021	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020	Q4 2019
SaaS	1,507,366	1,446,221	1,539,825	1,627,421	1,652,001	1,305,049	2,738,654	2,711,228
Hardware	567,356	1,404,193	831,704	1,490,709	137,137	450,841	227,684	657,577
Licensing	1,004,698	7,924	182,181	48,068	86,033	1,233,096	2,263,677	772,466
Technical Services	93,911	67,784	137,565	212,988	43,239	71,171	65,217	140,341
Total	3,173,331	2,926,122	2,691,275	3,379,186	1,918,410	3,060,157	5,295,232	4,281,612

	Q3 2021		Q3 2020		YTD 2021		YTD 2020	
	\$	%	\$	%	\$	%	\$	%
United States & Mexico	1,623,131	51.2	599,160	31.2	3,444,228	39.2	5,464,018	53.2
Asia	134,280	4.2	265,416	13.8	679,889	7.7	1,047,207	10.2
China	617,508	19.5	278,081	14.5	1,287,957	14.7	1,215,430	11.8
Middle East	210,243	6.6	177,935	9.3	759,443	8.7	672,146	6.5
Canada	361,563	11.4	276,202	14.4	1,713,767	19.5	841,114	8.2
Australia	64,431	2.0	80,264	4.2	205,744	2.3	337,917	3.3
Africa	125,110	3.9	148,952	7.8	364,265	4.1	407,773	4.0
Europe	18,534	0.6	81,446	4.2	274,094	3.1	164,473	1.6
South/Central America	18,531	0.6	10,954	0.6	61,341	0.7	123,721	1.2
Total	3,173,331	100.0	1,918,410	100.0	8,790,728	100.0	10,273,799	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 Q3 2021 was 31.8% compared to 30.8% in Q3 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:

	Q3 2021	Q2 2021	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020	Q4 2019
Gross Margin %	68.2	52.4	56.5	56.0	69.2	67.5	75.0	62.7
Cost of Sales	31.8	47.6	43.5	44.0	30.8	32.5	25.0	37.3

Distribution Expenses (Recovery)

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

Major Category	Q3 2021 \$	Q3 2020 \$	Variance \$	YTD 2021 \$	YTD 2020 \$	Variance \$
Salaries and benefits	764,041	946,037	(181,996)	2,528,474	3,587,602	(1,059,128)
Share based compensation	10,333	9,654	679	30,806	20,881	9,925
Contract labour	131,794	129,399	2,395	512,362	458,360	54,002
Office	41,701	78,656	(36,955)	180,529	165,524	15,005
Travel	30,700	12,441	18,259	63,516	126,365	(62,849)
Equipment and maintenance	10,264	15,503	(5,239)	29,351	35,905	(6,554)
Depreciation	88,087	146,360	(58,273)	269,880	446,392	(176,512)
Marketing	12,601	44,226	(31,625)	26,845	48,403	(21,558)
Government grants	(100,620)	(494,880)	394,260	(440,232)	(1,100,483)	660,251
Bad debt reserve	11,158	(297,566)	308,724	(301,781)	73,479	(375,260)
Total	1,000,059	589,830	410,229	2,899,750	3,862,428	(962,678)

Distribution expenses have increased 69.6% from Q3 2020 to Q3 2021, due mainly to the reduction in government grant funds as well as an increase in bad debt reserve.

Salaries and benefits decreased due to staffing reductions and the deployment of an increased proportion of staff into Research and Development activities.

Contract labour was higher in 2021 compared to 2020, reflecting the increased marketing support required for the Company's enhanced sales strategy.

Office expenses were lower in Q3 2021 compared to 2020 due to the investment in employee training, particularly in the Agile development methodology, that occurred during the second half of 2020.

Travel increased in Q3 2021 compared to Q3 2020 as in person meetings in regards to sales pursuits started occurring.

Depreciation expense was lower in Q3 2021 than Q3 2020, as the move to a new headquarters in Calgary in mid-2020 caused a one-time depreciation overlap on both buildings during the transition.

Government grants comprise 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. The grant totals in 2020 included a United States government grant as well as Canadian government funding, while funding in 2021 was solely received from the Canadian government. Differences in funding levels over time are reflective of variances in eligible expenses as well as changes in government funding made available under these programs in each respective period.

Bad debt reserve quarter over quarter variances reflects differences in bad debt estimates in Q3 2021 compared to Q3 2020.

Administration Expenses (Recovery)

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

Major Category	Q3 2021 \$	Q3 2020 \$	Variance \$	YTD 2021 \$	YTD 2020 \$	Variance \$
Salaries and benefits	273,640	530,353	(256,713)	869,137	1,495,466	(626,329)
Share based compensation	19,579	126,532	(106,953)	92,595	151,281	(58,686)
Contract labour	176,781	145,684	31,097	536,445	312,135	224,310
Office	142,870	140,320	2,550	434,966	396,170	38,796
Legal fees	23,782	27,650	(3,868)	77,278	72,416	4,862
Audit and accounting	68,751	38,674	30,077	167,420	150,725	16,695
Investor relations	35,176	20,530	14,646	94,304	118,136	(23,832)
Travel	30,512	4,217	26,295	35,737	66,430	(30,693)
Equipment and maintenance	70,608	95,300	(24,692)	237,797	202,405	35,392
Depreciation	25,254	42,822	(17,568)	80,729	133,621	(52,892)
Government grants	(80,342)	(143,258)	62,916	(329,950)	(300,826)	(29,124)
Other	88	1,250	(1,162)	715	8,442	(7,727)
Total	786,699	1,030,074	(243,375)	2,297,173	2,806,401	(509,228)

Administration expenses decreased by 23.6% from Q3 2020 to Q3 2021.

Salaries and benefits have decreased due to reductions in admin staff occurring in the second half of 2020, reflecting changes resulting from the Company's 2020 strategy pivot to increased emphasis on the development and sale of SaaS solutions. A portion of this decrease has been offset by increases in **Contract Labour**.

Office expenses have increased with a rise in insurance costs due to a combination of market conditions and customer contract requirements.

Investor relations decreases reflect the increased utilization of virtual tools in support of investor relations activities.

Travel continues to remain low as companies move more to virtual meetings and conferences, although there was an increase quarter over quarter. This trend toward lower travel costs due to increased utilization of virtual meeting technology is expected to continue until there is a higher level of comfort around the pandemic.

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. The grant totals in 2020 included a United States government grant as well as Canadian government funding, while funding in 2021 was solely received from the Canadian government. Differences in funding levels over time are reflective of variances in eligible expenses as well as changes in government funding made available under these programs in each respective period.

Research, Development and Certification Engineering Expenses (Recovery)

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

Major Category	Q3 2021 \$	Q3 2020 \$	Variance \$	YTD 2021 \$	YTD 2020 \$	Variance \$
Salaries and benefits	1,149,557	936,007	213,550	3,244,018	2,454,698	789,320
Share based compensation	5,588	3,961	1,627	16,125	8,061	8,064
Contract labour	157,894	191,155	(33,261)	264,692	369,865	(105,173)
Office	53,835	29,438	24,397	156,954	56,075	100,879
Travel	23,391	82	23,309	23,777	12,853	10,924
Equipment and maintenance	8,117	10,718	(2,601)	22,634	13,762	8,872
Components	7,374	5,438	1,936	9,079	16,376	(7,297)
Depreciation	57,609	35,357	22,252	163,046	111,602	51,444
Government grants	(103,960)	(199,613)	95,653	(573,347)	(650,272)	76,925
Other	-	-	-	904	106	798
Total	1,359,405	1,012,543	346,862	3,327,882	2,393,126	934,756

Research and Development expenses were 34.3% higher in Q3 2021 compared to the prior year's third quarter. The main contributor to the variances were increased people costs as the Company invests in developing its 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 new R&D-type initiatives, offset partially by decreases in **Contract labour**.

Office expenses were higher in the third 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	Q3 2021 \$	Q3 2020 \$	Variance \$	YTD 2021 \$	YTD 2020 \$	Variance \$
Interest income	(6,709)	(10,228)	3,519	(13,212)	(49,294)	36,082
Net foreign exchange loss (gain)	(51,922)	141,622	(193,544)	1,004	25,892	(24,888)
Bank service charges	8,972	(9,805)	18,777	24,924	(275,056)	299,981
Other gain (loss)	-	7,909	(7,909)	(498,042)	22,989	(521,031)
Interest expense	29,634	36,045	(6,411)	90,315	99,628	(9,313)
Government loan accretion	124,105	113,334	10,771	349,493	334,269	15,223
Debenture interest and accretion	19,434	63,580	(44,146)	152,248	190,198	(37,950)
Net finance costs	123,514	342,457	(218,943)	106,730	348,626	(241,896)

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 weakening of the Canadian dollar in Q3 2021 gave rise to foreign exchange gains in Q3 2021 compared to foreign exchange losses in Q3 2020 on U.S. dollar denominated sales and purchases, in combination with fluctuations in U.S. denominated assets and liabilities. YTD variances in this category show the impact of the pandemic particularly in Q3 2020 on foreign exchange rates.

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

Net Income (Loss)

Major Category	Q3 2021 \$	Q3 2020 \$	Variance \$	YTD 2021 \$	YTD 2020 \$	Variance \$
Net income (loss)	(1,107,195)	(1,647,249)	540,054	(3,415,152)	(1,240,071)	(2,175,081)

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 Q3 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 throughout the first three quarters of 2021 that recovery varied due to the second, third and fourth waves of the pandemic impacting several parts of the world, and the impact of the latest variants. 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

Some of the Company's products including 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 commencing in Q4 2020. A company related to a director of FLYHT provided financial consulting services commencing in Q3 2021. All of the transactions with both related parties were at terms equivalent to those that prevail in arm's length transactions.

	For the three months ended September 30		For the nine months ended September 30	
	2021	2020	2021	2020
Amounts included in:	\$	\$	\$	\$
Contract labour	44,820	1,800	123,970	1,800
Accounts payable	34,853	-	34,853	-

Government Grants

In the three months ended September 30, 2021, the Company recognized \$284,922 in government financial relief related to COVID-19 (Q3 2020: \$823,291). \$100,620, \$80,342 and \$103,960 have been applied to offset associated expenses in Distribution, Administration, and Research & Development expenses respectively.

No contributions were received from WINN in the three months ended September 30, 2021 (Q3 2020: \$14,460).

In the nine months ended September 30, 2021, the Company recognized \$1,174,526 in government financial relief related to COVID-19 (YTD 2020: \$1,821,254). \$440,232, \$329,950 and \$404,344 have been applied to offset associated expenses in Distribution, Administration, and Research & Development expenses respectively.

The \$169,003 grant portion of the contributions received from WINN in the nine months ended September 30, 2021 (YTD 2020: \$88,955) was offset against associated expenses in Research & Development expense.

Auditors' Involvement

National Instrument 51-102, Part 4, subsection 4.3 (3) (a), requires that if an auditor has not performed a review of the condensed consolidated interim financial statements there must be an accompanying notice indicating that the condensed consolidated interim financial statements have not been reviewed by an auditor.

The auditors of FLYHT Aerospace Solutions Ltd. have not performed a review of the condensed consolidated interim financial statements for the three and nine months ended September 30, 2021 and 2020.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION (UNAUDITED)

	September 30, 2021	December 31, 2020
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	5,355,302	5,127,963
Trade and other receivables	1,978,188	1,587,275
Contract assets	172,797	187,892
Deposits and prepaid expenses	450,355	544,052
Inventory	1,455,061	1,561,959
Total current assets	9,411,703	9,009,141
Non-current assets		
Property and equipment	2,802,071	3,035,392
Intangible assets	353,664	34,992
Inventory	2,107,990	1,656,710
Total non-current assets	5,263,725	4,727,094
Total assets	14,675,428	13,736,235
Liabilities		
Current liabilities		
Trade payables and accrued liabilities	1,717,060	2,128,941
Customer deposits	534,911	492,679
Loans and borrowings (note 5)	648,468	2,376,594
Lease liability	460,276	679,816
Tax liability	1,322	-
Total current liabilities	3,362,037	5,678,030
Non-current liabilities		
Loans and borrowings (note 5)	3,004,116	3,012,136
Lease liability	1,944,136	2,157,326
Provisions	17,535	24,103
Total non-current liabilities	4,965,787	5,193,565
Total liabilities	8,327,824	10,871,595
Equity		
Share capital	70,774,155	63,995,030
Convertible debenture – equity feature	-	173,524
Warrants	1,195,396	1,195,396
Contributed surplus	11,126,547	10,832,085
Cumulative translation adjustment	(52,947)	(51,000)
Deficit	(76,695,547)	(73,280,395)
Total equity	6,347,604	2,864,640
Total liabilities and equity	14,675,428	13,736,235

See accompanying notes to condensed consolidated interim financial statements, including the going concern note (note 2d).

On behalf of the board


Director – Doug Marlin


Director – Paul Takalo

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE LOSS (UNAUDITED)

	For the three months ended September 30		For the nine months ended September 30	
	2021 \$	2020 \$	2021 \$	2020 \$
Revenue (note 6)	3,173,331	1,918,410	8,790,728	10,273,799
Cost of sales	1,010,084	590,375	3,572,770	2,909,822
Gross profit	2,163,247	1,328,035	5,217,958	7,363,977
Distribution expenses (note 7)	1,000,059	589,830	2,899,750	3,862,428
Administration expenses (note 7)	786,699	1,030,074	2,297,173	2,806,401
Research, development and certification engineering expenses (note 7)	1,359,405	1,012,543	3,327,882	2,393,126
Loss from operating activities	(982,916)	(1,304,412)	(3,306,847)	(1,697,978)
Other Income	-	-	-	806,913
Finance income	(58,631)	(10,228)	(511,254)	(49,294)
Finance costs	182,145	352,685	617,984	397,920
Net finance income	123,514	342,457	106,730	348,626
Loss before income tax	(1,106,430)	(1,646,869)	(3,413,577)	(1,239,691)
Income tax expense	(765)	(380)	(1,575)	(380)
Loss for the period	(1,107,195)	(1,647,249)	(3,415,152)	(1,240,071)
Foreign currency translation adjustment	31,991	(18,546)	(1,947)	38,245
Comprehensive loss for the period	(1,075,204)	(1,665,795)	(3,417,099)	(1,201,826)
Loss per share				
Basic and diluted loss per share	(0.03)	(0.06)	(0.11)	(0.05)

See accompanying notes to unaudited condensed consolidated interim financial statements, including the going concern note (note 2d).

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY (UNAUDITED)

For the nine months ended September 30, 2021 and 2020

	Share Capital \$	Convertible Debenture \$	Warrants \$	Contributed Surplus \$	Cumulative Translation Adjustment	Deficit \$	Total Equity (Deficit) \$
Balance at January 1, 2021	63,995,030	173,524	1,195,396	10,832,085	(51,000)	(73,280,395)	2,864,640
Loss for the period	-	-	-	-	(1,947)	(3,415,152)	(3,417,099)
Total comprehensive loss	-	-	-	-	(1,947)	(3,415,152)	(3,417,099)
Contributions by and distributions to owners							
Issue of common shares	6,786,614	-	-	-	-	-	6,786,614
Share issue costs	(60,454)	-	-	-	-	-	(60,454)
Share-based payment transactions	-	-	-	139,525	-	-	139,525
Conversion of debt	-	(173,524)	-	173,524	-	-	-
Share options exercised	52,965	-	-	(18,587)	-	-	34,378
Total contributions by and distributions to owners	6,779,125	(173,524)	-	294,462	-	-	6,900,063
Balance at September 30, 2021	70,774,155	-	1,195,396	11,126,547	(52,947)	(76,695,547)	6,347,604
Balance at January 1, 2020	63,508,080	173,524	1,247,311	10,647,771	(32,176)	(69,966,026)	5,578,484
Income (loss) for the period	-	-	-	-	38,245	(1,240,071)	(1,201,826)
Total comprehensive income	-	-	-	-	38,245	(1,240,071)	(1,201,826)
Contributions by and distributions to owners							
Share-based payment transactions	-	-	-	180,223	-	-	180,223
Warrants exercised	15,165	-	(1,710)	-	-	-	13,455
Warrant modifications	-	-	76,912	(76,912)	-	-	-
Total contributions by and distributions to owners	15,165	-	75,202	103,311	-	-	193,678
Balance at September 30, 2020	63,523,245	173,524	1,322,513	10,751,082	6,069	(71,206,097)	4,570,336

See accompanying notes to condensed consolidated interim financial statements, including the going concern note (note 2d).

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS (UNAUDITED)

For the nine months ended September 30

	2021 \$	2020 \$
Cash flows used in operating activities		
Loss for the period	(3,415,152)	(1,240,071)
Depreciation – property and equipment	513,655	691,615
Disposal of PP&E	2,801	-
Convertible debenture accretion	152,248	190,199
Lease liability accretion	86,945	99,487
Grant portion of contributions from WINN	(169,003)	(88,955)
Gain on loan modification	(498,042)	(223,400)
Government loan accretion	349,493	334,269
Equity-settled share-based payment expenses	139,525	180,223
Change in inventories	(344,382)	(343,103)
Change in trade and other receivables	(396,573)	1,694,564
Change in contract assets	15,095	(255,650)
Change in prepayments	93,698	(122,423)
Change in trade and other payables	(416,204)	44,835
Change in customer deposits	42,232	261,159
Change in contract liabilities	-	(143,309)
Change in provisions	(6,822)	(7,616)
Unrealized foreign exchange loss (gain)	1,004	(25,770)
Other interest expense	3,370	-
Interest paid	(220,894)	-
Interest income	(13,213)	(49,294)
Interest received	5,621	15,856
Income tax expense (recovery)	1,575	380
Income tax paid	-	(380)
Net cash used in operating activities	(4,073,023)	1,012,616
Cash flows used in investing activities		
Acquisitions of property and equipment	(285,288)	(323,257)
FLYHT WVSS-II intellectual property	(318,672)	-
Net cash used in investing activities	(603,960)	(323,257)
Cash flows from financing activities		
Subsidy payment received	-	291,567
Less subsidy recognized	-	(806,913)
Net proceeds from private placement	6,561,160	-
Issuance of common shares	165,000	-
Proceeds from exercise of share options	34,378	-
Warrant exercises	-	13,455
Payment of lease liabilities	(432,168)	(476,595)
Contributions from CARES (PPP)	-	59,580
Contributions from WINN	496,286	474,747
Contributions from BDC (HASCAP)	250,000	-
Repayment of convertible debenture	(1,674,359)	-
Repayment of borrowings	(508,820)	(250,949)
Net cash from financing activities	4,891,477	(695,108)
Net increase in cash and cash equivalents	214,494	(5,749)
Cash and cash equivalents, beginning	5,127,963	4,127,648
Effect of exchange rate fluctuations on cash held	12,845	(14,416)
Cash and cash equivalents, ending	5,355,302	4,107,483

See accompanying notes to condensed consolidated interim financial statements, including the going concern note (note 2d).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. Reporting entity

FLYHT Aerospace Solutions Ltd. (the “**Company**” or “**FLYHT**”) was founded in 1998 under the name AeroMechanical Services Ltd. FLYHT is a public company incorporated under the Canada Business Corporations Act, and is domiciled in Canada. The Company has been listed on the TSX Venture Exchange since March 2003, first as TSX.V: AMA and as TSX.V: FLY since 2012 and has been listed on the OTCQX marketplace since June 2014 as OTCQX: FLYLF. FLYHT is publicly traded as FLY in Canada on the TSX.V; and as FLYLF in the USA on the OTCQX. FLYHT is based in Calgary, Canada with an office in Littleton, Colorado and is an AS9100 Quality registered company. For more information visit www.flyht.com.

FLYHT provides airlines with Actionable Intelligence to transform operational insight into immediate, quantifiable action, thereby 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’s hardware products, software applications and communication systems are designed to work together and provide excellent value to our customers by having customizable access to real-time data from the aircraft. By integrating with information from airlines, airports, service providers and others we can improve airline operations. 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.

2. Basis of preparation

(a) Basis of accounting

These unaudited condensed consolidated interim financial statements have been prepared in accordance with IAS 34 – Interim Financial Reporting. They do not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Company as at and for the year ended December 31, 2020. These condensed consolidated interim financial statements were approved by the Board of Directors on November 4, 2021.

(b) Basis of measurement

The unaudited condensed consolidated interim financial statements have been prepared on a historical cost basis, except for financial instruments at fair value through profit or loss, which are measured at fair value in the statement of financial position.

(c) Functional and presentation currency

These unaudited condensed consolidated interim financial statements are presented in Canadian dollars, which is the Company’s functional currency. The functional currency of the Company’s USA subsidiary is US dollars.

(d) Going concern

The condensed consolidated interim financial statements have been prepared on the basis that the Company will continue to realize its assets and meet its obligations in the ordinary course of business. 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 Q3 2021 and Q3 2020. In 2021, the Company used \$3.9 million of cash in operations. At September 30, 2021, the Company had positive working capital of \$6.0 million compared to positive \$3.3 million as of December 31, 2020, an increase of \$2.7 million. The Company ended Q3 2021 with balances of \$5.4 million in cash and cash equivalents, an undrawn credit facility of \$1.5 million, and \$1.4 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 customers and prospects, which are expected to result in additional contracts for delivery of hardware units and related services. 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.

The negative impact to the commercial airline 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 and into Q2 2021 some of that recovery was lost to the second and third waves of the pandemic impacting several parts of the world, and the impact of the latest variants. 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. As a result of these factors, there is a material uncertainty that may result in significant doubt as to 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.

3. Significant accounting policies

The accounting policies set out in note 3 of the Company's December 31, 2020 consolidated financial statements have been applied consistently to all periods presented in these unaudited condensed consolidated interim financial statements, unless otherwise indicated. These accounting policies have also been applied consistently by the Company's subsidiaries.

4. Measurement of fair values

A number of the Company's accounting policies and disclosures require the measurement of fair value, for both financial and non-financial assets and liabilities. When measuring the fair value of an asset or a liability, the Company uses observable market data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

Fair values have been determined for measurement and/or disclosure purposes based on the following methods, all of which are determined using a number of observable inputs other than quoted prices in active markets (Level 2).

- (a) Cash and cash equivalents, trade and other receivables, trade payables and accrued liabilities: carrying value approximates fair value, due to the short-term nature of the instruments.
- (b) Loans and borrowings: for measurement purposes, fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the inception of the loan. In respect of the liability component of convertible debentures, the market rate of interest is determined by reference to similar liabilities that do not have a conversion feature.

5. Loans and Borrowings

Government loans

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 Q3 2021 totaled \$117,000 (Q3 2020: nil). The carrying value of the amount owing under this program at September 30, 2021 is \$1,551,836 (September 30, 2020: \$1,779,807).

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. This modification resulted in a gain on the November 2018 WINN loan of \$498,042. At September 30, 2021, the Company had received contributions totaling \$1,284,548 (December 31, 2020: \$788,262). The carrying value of the amount owing under this program at September 30, 2021 is \$597,723 (September 30, 2020: \$554,333).

Both WINN loans are interest free.

Under SADI, the Company received a loan of \$1,967,507 which 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. No repayment was made in the third quarter of 2021 (Q3 2020: nil). The carrying value of the amount owing under this program at September 30, 2021 is \$1,253,025 (September 30, 2020: \$1,389,018).

In May 2021, the Company received funding of \$250,000 through the BDC's [HASCAP](#) loan program, designed to support small and medium sized businesses affected by COVID-19. This loan carries interest of 4% per annum over a 10-year term commencing May 10, 2021. Payments in the first year following funding are comprised of interest only, with the principal and accrued interest payable over the remaining 9 years. The carrying value of the amount owing under this program at September 30, 2021 is \$250,000 (September 30, 2020: nil).

A summary of the carrying value of the government loans as at September 30, 2021 and changes during the year and comparative year are presented below.

	2021 Total	2020 Total
Balance January 1	3,732,670	3,343,497
Contributions received	746,286	474,747
Grant portion	(169,003)	(88,955)
Interest accretion	349,493	334,269
Gain on loan modification	(498,042)	(223,400)
Repayment	(508,820)	(117,000)
Balance September 30	3,652,584	3,723,158
Less current portion	648,468	553,035
Non-current portion	3,004,116	3,170,123

Convertible Debenture

The Company issued debentures with a face value of \$2,000,000 on July 24, 2018. These debentures matured on July 24, 2021 and bore interest at a rate of 8% per annum, which was accrued and paid annually in arrears. All debentures that were not converted prior to maturity were repaid in full on July 23, 2021, including all outstanding secured convertible debentures (CAD\$1.7 million) and all accrued and unpaid interest.

The Debentures were secured against all personal property of the Company and were 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 convertible debenture as at September 30, 2021 and changes during the year and comparative year are presented below.

	2021 \$	2020 \$
Balance January 1	1,656,060	1,535,438
Accrued interest	18,299	56,250
Debenture repayment	(1,674,359)	-
Balance September 30	-	1,591,688
Less current portion	-	138,091
Non-current portion	-	1,453,597

6. Share Capital

Authorized:

Unlimited numbers of common shares, and classes A, B and C preferred shares, issuable in series, having no par value.

The preferred shares may be issued in one or more series. The directors are authorized to fix the number of shares in each series and to determine the designation, rights, privileges, restrictions and conditions attached to the shares in each series.

Issued and outstanding:

Common shares:	Number of Shares	Value \$
Balance January 1, 2021	27,279,024	63,995,030
Exercise of employee options	58,267	52,965
Common shares issued	9,078,818	6,786,614
Share issue costs	-	(60,454)
Balance September 30, 2021	36,416,109	70,774,155

On July 22, 2021 the Company closed a non-brokered private placement, issuing 8,828,818 units at a price of \$0.75 per unit, for total proceeds of \$6,621,614. Each unit consisted of one common share. All of the common shares issued pursuant to the private placement were subject to a 4-month hold period.

Option exercises during the year have resulted in the Company issuing a total of 58,267 shares for total proceeds of \$34,378; all options were exercised at a price of \$0.59 per share.

7. Earnings per share

The calculation of basic and diluted earnings per share for the three months ended September 30, 2021 was based on a weighted average number of common shares outstanding of 34,460,451 (basic and diluted) (September 30, 2020: 26,663,861 (basic and diluted)). Both calculations of diluted earnings per share did not include outstanding stock options, warrants, nor convertible debentures because they would be anti-dilutive.

The calculation of basic and diluted earnings per share for the nine months ended September 30, 2021 was based on a weighted average number of common shares outstanding of 29,729,775 (basic & diluted) (September 30, 2020: 26,662,827 basic and diluted). The 2021 calculation of diluted earnings per share did not include outstanding stock options, warrants, nor convertible debentures because they would be anti-dilutive.

8. Disaggregation of revenue

The Company has one operating segment. The following revenue is based on the geographical location of customers. All non-current assets reside in Canada, with the exception of property and equipment valued at \$73,903, a leased building valued at \$145,483, and non-current inventory valued at \$1,100,569 located at FLYHT's offices in Littleton, CO.

	For the three months ended September 30		For the nine months ended September 30	
	2021	2020	2021	2020
	\$	\$	\$	\$
United States & Mexico	1,623,131	599,160	3,444,228	5,464,018
Asia	134,280	265,416	679,889	1,047,207
China	617,508	278,081	1,287,957	1,215,430
Middle East	210,243	177,935	759,443	672,146
Canada	361,563	276,202	1,713,767	841,114
Australia	64,431	80,264	205,744	337,917
Africa	125,110	148,952	364,265	407,773
Europe	18,534	81,446	274,094	164,473
South/Central America	18,531	10,954	61,341	123,721
Total	3,173,331	1,918,410	8,790,728	10,273,799

The following shows revenue per major product and service categories.

	For the three months ended September 30		For the nine months ended September 30	
	2021	2020	2021	2020
	\$	\$	\$	\$
SaaS	1,507,366	1,652,001	4,493,411	5,695,706
Hardware	567,356	137,137	2,803,252	815,661
Licensing	1,004,698	86,033	1,194,804	3,582,805
Technical Services	93,911	43,239	299,261	179,627
Total	3,173,331	1,918,410	8,790,728	10,273,799

SaaS is the recurring revenue from the Company's products that allow customers to utilize and analyze data they receive from units, use of functions such as the satellite phone and the sale of weather data collected by 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 and arrangements for exclusive access to weather data sets.

Technical Services includes services offered by the Company, including repairs and other expertise. The Company has not disclosed the transaction price allocated to remaining performance obligations for SaaS and Technical Services, as revenue for these performance obligations is recognized using the practical expedient to recognize revenue at the amount to which the Company has a right to invoice.

The undelivered amount of revenue related to contracted yet undelivered hardware and licenses for which a purchase order has been received is \$986,554 CAD.

Major customers

Revenues from the three largest customers represent approximately 54.4% and 38.8% of the Company's total revenues for the three and nine months ended September 30, 2021 (2020: 44.3% and 54.4%).

9. Government grants

In the three months ended September 30, 2021, the Company recognized \$284,922 in government financial relief related to COVID-19 (Q3 2020: \$823,291). \$100,620, \$80,342 and \$103,960 have been applied to offset associated expenses in Distribution, Administration, and Research & Development expenses respectively.

No contributions were received from WINN in the three months ended September 30, 2021 (Q3 2020: \$14,460).

In the nine months ended September 30, 2021, the Company recognized \$1,174,526 in government financial relief related to COVID-19 (YTD 2020: \$1,821,254). \$440,232, \$329,950 and \$404,344 have been applied to offset associated expenses in Distribution, Administration, and Research & Development expenses respectively.

The \$169,003 grant portion of the contributions received from WINN in the nine months ended September 30, 2021 (YTD 2020: \$88,955) was offset against associated expenses in Research & Development expense.

10. Related parties

A company related to an officer of FLYHT provided marketing services commencing in Q4 2020. A company related to a director of FLYHT provided financial consulting services commencing in Q3 2021. All of the transactions with both related parties were at terms equivalent to those that prevail in arm's length transactions.

	For the three months ended September 30		For the nine months ended September 30	
	2021	2020	2021	2020
	\$	\$	\$	\$
Amounts included in:				
Contract labour	44,820	1,800	123,970	1,800
Accounts payable	34,853	-	34,853	-

11. Asset Acquisition

On September 16, 2021, the Company acquired the WVSS-II product line assets from SpectraSensors Inc. The assets acquired included manufacturing assets, inventory, aviation-specific intellectual property, and a license to the Tunable Diode Laser Absorption Spectroscopy ("TDLAS") technology for use in the weather and aviation markets. The Company concluded that the transactions should be accounted for as an asset acquisition, and recognized the acquired assets at cost, with the total provisional acquisition costs being allocated to the underlying assets using relative fair value. Additional costs will be incurred to transport and install the inventory and manufacturing assets to the Company's headquarters.

	Amounts recognized on acquisition
Property and equipment	156,918
Inventory	172,240
Intellectual property	318,672
Total	647,830
Less: acquisition direct costs	(16,030)
Purchase consideration	631,800

The valuation techniques used for measuring the fair value of assets acquired were as follows:

Assets acquired	Valuation technique
Property and equipment	Fair value assessment considered market prices for similar items when they were available, and depreciated replacement cost when appropriate.
Inventory	Inventory acquired was assessed for impairment and valued at cost or at a reduced value when appropriate.
Intellectual property	The value of the intellectual property acquired was measured using a discounted cash flow approach.

CORPORATE INFORMATION

Registrar and Transfer Agent

Odyssey Trust Company
1-587-885-0960
<https://odysseytrust.com/>

Share Listing

Shares are traded on the TSX Venture Exchange (TSX.V: FLY) and the OTCQX Marketplace (OTCQX: FLYLF)

Investor Relations

investors@flyht.com
1-403-250-9956
www.flyht.com

FNK IR LLC
flyht@fnkir.com
1-646-809-2183
www.fnkir.com

Directors

Nina Jonsson
Bill Tempany
Brent Rosenthal
Doug Marlin
Jack Olcott
Mary McMillan
Mike Brown
Paul Takalo

Executive Chairman, FLYHT Aerospace Solutions Ltd.
Interim CEO, FLYHT Aerospace Solutions Ltd.
Mountain Hawk Capital Partners, LLC
President, Marlin Ventures Ltd.
President, General Aero Company
Director
Partner, Nanaimo Law
Director

Officers

Bill Tempany
Alana Forbes
Darrel Deane
Derek Graham
Derek Taylor

Interim CEO
Chief Financial Officer
Vice President Solutions
Vice President Business Development
Vice President Sales and Marketing

Auditor

KPMG LLP

Calgary, Alberta

Legal Counsel

Chris Croteau

Tingle Merrett LLP, Calgary, Alberta

Head Office

#500, 1212 - 31 Avenue NE
Calgary, Alberta T2E 7S8