

THIRD QUARTER

FLYHT AEROSPACE
SOLUTIONS LTD.

20 23



FLYHTTM
INSIGHT • ACTION • CONTROL

LETTER TO SHAREHOLDERS



FLYHT's third quarter was marked by significant progress as we execute on our AFIRS Edge™ and weather strategies – two of the largest opportunities in our 25 year history. We have now established solid beachheads for these two global markets and are poised for an exciting year of installations and revenue in 2024. With a contracted backlog that has increased to \$38 million, our AFIRS Edge in production, and SaaS offerings that leverage our new 5G capabilities, we have successfully positioned ourselves to implement our vision established some 18 months ago.

Commercialization of the AFIRS Edge is well underway. Recent contract signings with Flair Airlines and Canada Jetlines are providing installation access for the Edge on both the B737 Max and A320 aircraft types. With engineering tests completed on the A320, we are preparing for formal testing and the activation STC submission to Transport Canada Civil Aviation. Initial hardware production runs of the AFIRS Edge have been completed, and following STC approvals we will begin installations on our

customers' schedules. With both Flair Airlines and Canada Jetlines contracting for a full suite of hardware and recurring SaaS products, we are excited to have our customers using the ClearPort, FuelSense, and GateWay applications.

Continued success in our weather business has secured multi-year contracts with two of the largest national meteorological agencies. Both the UK Met and NOAA have signed contracts with FLYHT to equip partner airlines with our AFIRS Edge, the FLYHT-WVSS-II relative humidity sensor, and Iridium Certus-100 connectivity. Both national agencies are looking to FLYHT to help improve the accuracy of weather forecasts and to aid in the prediction of localized severe weather events. We expect to begin generating meaningful upfront hardware sales in 2024 and thereafter realize the recurring revenues associated with the Aircraft Based Observations ("ABOs") that will be generated for these weather agencies. Our strategic approach to engage directly with the government agencies has not only provided the means to secure these contracts, but it also provides our partner airlines the opportunity to benefit from significantly reduced capital costs for their AFIRS Edge and satcom connectivity. With the signing of both contracts, FLYHT's purchase of the WVSS-II sensor two years ago for \$500,000 and our strategy to directly target government meteorological agencies has been validated.

Our Maintenance, Repair, and Overhaul ("MRO") solutions business, CrossConsense, continues to land new contracts. During the third quarter of 2023 FLYHT landed our largest new MRO solutions contract since CrossConsense was acquired a year and a half ago. CrossConsense has been engaged by a leading management consultancy with a deep European heritage and strong international footprint to manage an aircraft data migration project for one of its airline clients, a large flag carrier in Europe.

Financially, our revenue continues to grow strongly when excluding last year's large OEM licensing order which benefited 2H. This includes our sixth consecutive quarter of double-digit SaaS growth driven by the ongoing recovery of customer flight activity, higher demand for soundings from our weather data partner, and greater adoption of our Actionable Intelligence suite from renewing customers. As we do not yet have consistent positive EBITDA, we are working within our means by being disciplined on controllable operating expenses. I am very pleased that these efforts contributed to FLYHT successfully increasing our cash balance during the quarter.

FLYHT's strategic planning and tactical management is bringing a coordinated effort into focus. R&D activities, while continuing, are now starting to make way for production of AFIRS Edge units and sellable SaaS solutions. As we build our product offerings around the Edge and our 5G capabilities, we are seeing hardware sales start to grow. STC activities and installations are underway on the two most popular commercial aircraft types in the world, and we are confident these installations will lead to SaaS revenues in both the Actionable Intelligence and Weather markets.

Heading into the final months of the year, I am extremely confident in FLYHT's prospects. I would like to thank our customers for the opportunity to continue serving them, and to thank our shareholders for their loyal support.

Yours truly,

Kent Jacobs
President and Interim CEO

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Management Discussion & Analysis

This management discussion and analysis ("MD&A") is as of November 9, 2023 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, 2022 and 2021 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, 2023 condensed consolidated interim financial statements and the notes thereto in accordance with International Financial Reporting Standards ("IFRS"), 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, non-current financial liabilities and earnings before interest, income tax, depreciation and amortization (EBITDA). FLYHT defines working capital as current assets less current liabilities. Non-current financial liabilities include the non-current portion of loans and borrowings and lease 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. Working capital can be used to assess a company's liquidity, operational efficiency, and short-term financial health. Non-current financial liabilities can be used to assess the solvency and leverage of a company. EBITDA can be used to analyze and compare profitability among companies and industries, as it eliminates the effects of financing and capital expenditures. 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 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 pandemic, 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 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., German and foreign government activities, volatility within the aviation market for FLYHT's products and services, factors that result in significant and prolonged disruption of air travel worldwide, global 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 pandemic, 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, and delivers industry leading solutions to improve aviation safety, efficiency, and profitability. This unique capability is driven by a suite of patented aircraft certified hardware products and software solutions. These include AFIRS™, an aircraft satcom / interface device, which enables cockpit voice communications, real-time aircraft state analysis, and the transmission of aircraft data while in-flight. The AFIRS Edge (Edge) is a 5G Wireless Quick Access Recorder (WQAR), Aircraft Interface Device (AID), and Aircraft Condition and Monitoring System (ACMS). The Edge can be interfaced with FLYHT's TAMDAR probe and/or the FLYHT-WVSS-II relative humidity sensor to deliver airborne weather and humidity data in real-time. FLYHT complements the AFIRS airborne systems with enterprise applications that help airlines improve operational efficiency and situational awareness including UpTime, FleetWatch, FuelSense and ClearPort services.

CrossConsense, FLYHT's wholly owned subsidiary, offers highly skilled services to the commercial aviation industry and provides preventative maintenance solutions. These include Aircraft Fleet View, a native application that gives a real-time view of airline fleet status; AviationDW, a managed data warehouse for enhanced business intelligence; and ACSIS, a visualization and predictive maintenance alerting tool (see Business Combination section, page 22).

FLYHT is headquartered in Calgary, Canada, and is an AS9100 Quality registered company. CrossConsense, located in Frankfurt, Germany, is an ISO9001 certified operation. For more information visit www.flyht.com.

1. Actionable Intelligence Solutions

Actionable Intelligence solutions maximize customers' operational efficiency and safety with reliable, easy to use, flexible, and cost-effective solutions. This industry differentiator provides not only economic value but also opportunities for customers and FLYHT to meet their sustainability goals. FLYHT aims to leave no data stranded and no related opportunity to take corrective or opportunistic action left unrealized.

Cloud-based enterprise servers complement AFIRS data with external airline, airport and other industry data sources. These external sources have many components aiding in aircraft operations, maintenance, and ground operations as well as flight planning and scheduling. The consolidation of this wide collection of data sources allows for the creation of a data lake to which machine learning and artificial intelligence methods can be applied.

FLYHT continues to add to the suite of Actionable Intelligence solutions. The service offering provides FLYHT with a recurring, SaaS (Software as a Service) revenue stream that is incremental to its existing revenue sources. While every Actionable Intelligence solution will thrive with real-time inputs from an AFIRS unit, the broader approach to incorporate third-party inputs allows FLYHT's solutions to be leveraged in any airline environment.

WQAR

As 2G/3G/LTE cellular networks around the world are decommissioned, FLYHT's AFIRS Edge provides a seamless transition to WQAR (Wireless Quick Access Recorder) file transmission over existing 3G/4G and new 5G networks. 5G networks allow for a significant increase in data volumes transmitted from an aircraft, enabling additional Actionable Intelligence solutions to be implemented. As these become available FLYHT can provide immediate access for airlines to maximize benefits of the new networks, setting up airlines for long term success. QAR data forms one of the foundations for the Actionable Intelligence solutions that FLYHT provides.

Opportunities to enhance airline operational control and decrease airline costs are derived from QAR recordings and wireless distribution functions, by expanding data harvesting that is fully under airline control.

Aircraft Interface Device

AFIRS Edge provides AID functions to supply an aircraft's own data to the flight deck for EFB applications. By conforming to the ARINC 834 standard, own-ship information is transmitted from the AFIRS Edge to Actionable Intelligence applications running on the flight deck. Whether airlines run their own EFB applications or run third party programs, they will always have access to the rich set of aircraft data provided by the AFIRS Edge.

The AFIRS Edge AID functions are easily and remotely configurable. As airlines update or add new EFB applications the need for new aircraft data points will arise. By remotely updating the AID service of the Edge, new Actionable Intelligence solutions can be enabled on the flight deck without personnel having to individually update each aircraft in a fleet.

FleetWatch

Situational awareness remains a primary objective of any Operations Control Centre (OCC) and frontline staff. FLYHT's FleetWatch provides a configurable fleet wide situational awareness platform in a form factor most relevant to the role of the receiver. 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 display with meaningful information, airline staff are immediately notified when situations requiring their attention are identified. From diagnosing a fault while airborne to instructing ground crews of unnecessary APU operation, FleetWatch is a primary conveyor of Actionable Intelligence to our airline customers.

FuelSense

Fuel and emissions are a significant concern for all airlines. FLYHT's FuelSense application provides insight to an airline's management and usage of fuel. By providing targeted guidance through impactful decision support, airline operational change can be achieved. FuelSense incorporates the concept of Actionable Intelligence to provide meaningful information to an operator. Fuel optimization includes minimizing APU usage and optimizing dispatch, pilot and ground personnel actions.

ClearPort

Better asset utilization has a direct impact on airlines' long-term sustainability. ClearPort provides Actionable Intelligence to support optimizing ground operations. By providing a clear view into the status of an aircraft in a turn, 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. ClearPort draws attention to opportunities for personnel to better manage aircraft turns and immediately mitigate risks of late departures.

2. Airborne Hardware

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 (the first 5G solution on the market), a modular Iridium Certus satcom, Bluetooth and WiFi capabilities, and the ability to incorporate with existing onboard broadband solutions.

AFIRS Edge turn-key applications include AID 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 AFIRS Edge provides an industry-first move towards 5G transmission of aircraft recorded FDR data. By using the most efficient method of data transfer off an aircraft, data volumes can be increased while the 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 AFIRS Edge provide an opportunity for airlines to upgrade their WQAR capabilities in one move that will serve them for many years.

The AFIRS Edge provides a configurable airborne platform for FLYHT to implement current and future Actionable Intelligence solutions for FLYHT's customers and the industry. There are two models within the AFIRS Edge product line: the AFIRS Edge, a flange mounted device, and the Edge+, a 4MCU (ARINC 600 connector) unit, giving flexibility depending upon the aircraft type and customer requirements.

AFIRS™

The Automated Flight Information Reporting System (AFIRS) is a family of avionics installed on aircraft that captures and monitors hundreds of essential functions from the aircraft including data recorded by the FDR (the “Black Box”). AFIRS transmits this information in real-time through various technologies to FLYHT’s servers, which use that data to power solutions such as displaying real-time fleet visualizations and providing fleet wide Actionable Intelligence.

In addition to data monitoring and flight tracking functions, the AFIRS family of products provides voice and text messaging capabilities in both safety services level security and 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 relative humidity data. FLYHT’s real-time, global coverage is enabled through the Iridium satellite network, providing service to customers anywhere on the planet.

FLYHT has received regulatory certification for installation of AFIRS on most commercial aircraft types and models (see systems approvals section). The AFIRS 228S features cater to the evolving needs of airlines by providing a customizable and flexible product. FLYHT’s in-house aircraft certification group allows for easy addition of new data sources to the reporting capabilities of AFIRS.

FLYHT’s AFIRS 228S conforms to the Canadian Technical Standard Order (CAN-TSO) Design Approval, CAN-TSO-C159b. 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 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.

FLYHT’s systems and solutions 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-WVSS-II (Water Vapour Sensing System)

The FLYHT-WVSS-II is an externally mounted aircraft sensor that detects and reports water vapour as relative humidity. This relative humidity 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 ascent and descent phases of a flight to generate soundings. By adding relative humidity to the standard AMDAR payload, FLYHT significantly increases the value of aircraft weather data. 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 are 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 are maintained.

TAMDAR

FLYHT’s Tropospheric Airborne Meteorological Data Reporting (TAMDAR) system is a unique sensor device installed on aircraft that captures temperature, atmospheric 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 100+ aircraft in North America, Asia, and Europe through frequent soundings and continuous observations including all the metrics of radiosonde observations plus icing and turbulence.

Like the data traditionally gathered by weather balloons, 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 weather offices. The relative humidity data, gathered throughout an aircraft’s flight, makes these weather soundings particularly valuable to meteorologists.

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 products provide both power and connectivity to the devices used by pilots to create a secure, reliable platform for EFBs.

The AFIRS voice solution uses the Iridium satellite constellation with global coverage and an onboard satellite phone to provide a rapid and reliable private satcom communication channel to the flight deck. When operating remote or oceanic flights, this allows for communication between dispatch and crew with no delay. The voice capability is particularly valuable when operating in remote regions with little to no VHF/HF coverage.

FLYHT's communication solutions include long range satcom, as well as Air Traffic Safety (ATS) Services voice, providing a higher performance alternative to that of legacy High Frequency (HF) communications. AFIRS 228S TSO complies with the FAA Advisory Circular AC 20-150B as one of the two required Long Range Communication Systems (LRCS). The AFIRS 228S TSO is a TSO-C159b certified Iridium satcom solution providing the aircraft with reliable FANS 1/A, ADS-C, CPDLC and ACARS over Iridium messaging capabilities.

The AFIRS Edge includes 5G/4G/3G cellular capabilities, a modular Iridium Certus satcom, and the ability to integrate with existing onboard broadband solutions.

4. MRO Services

CrossConsense supports the aviation industry with its expertise in the application and utilization of SWISS AviationSoftware's comprehensive AMOS software solution. With a profound understanding of MRO products and airline maintenance operations, the company offers a range of solutions in the MRO market including maintenance, engineering, and logistics solutions, as well as data migration, business intelligence, customization, and consulting services. Core offerings include:

AMOS Support

Offering a single point of contact for both 1st and 2nd level support, CrossConsense ensures seamless troubleshooting and assistance for clients. CrossConsense specializes in meticulously planned and executed data migration projects, ensuring smooth transitions for airline customers. The company also excels in reporting and business intelligence analytics, providing crucial insights to optimize operations.

AMOS Hosting & Operation

CrossConsense's hosting and operation services offer a comprehensive solution for aviation businesses seeking a reliable, secure, and efficient platform to manage their software applications.

Aircraft Fleet View

The Aircraft Fleet View application is a tool that provides real-time insights into an airline's fleet status. Displaying crucial information with precision and clarity, Aircraft Fleet View offers updates on Aircraft on Ground (AOG) situations, delays, and other vital data without overwhelming the user.

ACSIS (Aircraft Condition and Status Information System)

Recognizing the significance of predictive maintenance, CrossConsense developed ACSIS. This robust software empowers airlines, operators, MRO facilities, and OEMs to predict and prevent AOGs, delays, and turnbacks. ACSIS optimizes aircraft utilization and enhances safety, contributing to improved overall operational efficiency.

AviationDW (Aviation Data Warehouse)

AviationDW is a managed data warehouse solution tailored for seamless integration with backend systems such as AMOS. By simplifying KPI creation through comprehensive MRO system data analysis, AviationDW offers a strategic advantage in decision-making and performance optimization.

SYSTEM APPROVALS

FLYHT is a TCCA Approved Manufacturer, a TCCA Approved Maintenance Organization (AMO) and an EASA and CAAC Part 145 Repair Facility. FLYHT is part of a select group of Canadian companies who are approved by TCCA as a Design Approval Organization (DAO). FLYHT's quality system is AS9100D certified with the registrar Intertek. The Company also holds Supplement Type Certificates ("STC"s) to make appropriate modifications, such as installing FLYHT's AFIRS, FlightLink and TAMDAR technologies to an aircraft's approved design. An STC is required when the original type design of the aircraft is altered or modified. In order to install FLYHT's hardware solutions on an aircraft, the type design is altered, and thus the STC certification process must be followed in whichever jurisdiction the aircraft operates.

FLYHT has STC approvals from TCCA (Canada), the 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's expertise in airworthiness certification allowed the Company to join a select group of Canadian companies who are approved by TCCA as a DAO. Very few organizations achieve DAO status because of the time and expertise required to meet TCCA standards. FLYHT's DAO status, along with the delegations it has received, allows the Company to obtain and revise its own STCs and TSOs with minimal TCCA oversight. This lessens application wait times and reduces costs and reliance on contractors.

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

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

The process to receive an STC can take considerable 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 provisional approval (this process can vary depending on the jurisdiction).

Once the provisional approval is received, 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 approval 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 new national regulator, FLYHT submits an application to the new regulator such as the FAA or EASA with the STC data package previously approved by TCCA. The new 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 to obtain TCCA approval, with an additional three to eight months if an STC is required from an additional regulator.

STC Chart: AFIRS 220 and 228

TCCA Canada		FAA USA		EASA EU		CAAC China		ANAC Brazil		Aircraft Type
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 and ATR72-212A "500 Version"
	A		A						A	ATR72-100, -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 MAX 8
			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 B777-200, -300
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			Comac ARJ21 *China Express Airlines Co. Ltd.
	A		A				P		A	Embraer ERJ 190-100
		A								Embraer Legacy 600 and ERJ-135, -145
A										Fokker 100
A	A	A	A	A	A					Hawker Beechcraft 750, 800XP, 850XP, 900XP
A		A			A					McDonnell Douglas DC-10 (KC-10 military)
			A							McDonnell Douglas MD-82
	A		A							McDonnell Douglas MD-83
A										Viking Air DHC-7 (LSTC)

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). FLYHT has also received an AFIRS 228 STC validation from CAAM (Civil Aviation Authority of Malaysia) for the Boeing 767-200, -300.

STC Chart: AFIRS Edge

TCCA Canada	FAA USA	EASA EU	UK CAA	CAAC China	Aircraft Type
P					Airbus A319, A320, A321, NEO
P					Boeing B737-600, -700, -800
P					Boeing B737-MAX 8
			I		Embraer ERJ-145

STC Chart: FLYHT-WVSS-II

TCCA Canada	FAA USA	EASA EU	UK CAA	CAAC China	Aircraft Type
I					Boeing B737-600, -700, -800
			I		Embraer ERJ-145

STC Chart: TAMDAR

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

*Chart Legend: 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. A few key points are as follows¹.

- Industry-wide revenue passenger-kilometers (RPKs) increased 28.4% year-on-year (YoY) in August. Compared to 2019 levels, passenger traffic recovered to 95.7%.
- Available seat-kilometers (ASKs) rose at a slower annual pace of 24.9%, lifting passenger load factors (PLFs) close to pre-pandemic levels. The PLF in August was 84.6%, 1.1 pts lower than the PLF for the same month in 2019.
- Domestic passenger traffic grew 9.2% over pre-pandemic levels. Most monitored markets saw stable growth in domestic traffic, while Japan experienced disruptions due to Typhoon Khanun.
- The recovery of international RPKs remained at 88.5% of 2019 levels. Regions experienced different outcomes while Asia Pacific carriers continued to restore international traffic.

The Aviation Industry in 2023

International Air Transport Association's (IATA) industry results, measured in 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.

Industry-wide revenue passenger-kilometers (RPKs) increased 28.4% year-on-year (YoY) in August. Compared to 2019 levels, passenger traffic recovered to 95.7%. In seasonally adjusted terms, passenger traffic increased 1.0% month-on-month (MoM), indicating a slowing but still positive trend globally. Seat capacity, measured in available seat-kilometers (ASKs), rose 24.9% YoY and was only 3.1% under 2019 levels. Airlines in all regions have achieved growth in traffic and passenger load factors (PLFs), compared to the same month in 2022. Across the whole industry, PLFs have trended near those of 2019, an indication of high demand for air travel and good financial performance for airlines.

Total domestic RPKs grew 9.2% over 2019 numbers and 25.4% over 2022 levels, maintaining the improvement trend observed in recent months. On the other hand, the recovery in international RPKs experienced a decrease compared to July, now standing 11.5% below August 2019 levels. While recovery trends in domestic and international traffic have been diverging since May 2023, international RPKs have maintained their growth, albeit at a slower pace than domestic traffic and relative to the strong performance of international traffic in 2019.¹

The industry-wide air cargo demand, measured by cargo tonne-kilometers (CTKs), stood at 20.7 billion in August, with seasonally adjusted (SA) CTKs at 20.8 billion. Compared with the previous year, global CTKs grew by 1.5% year-on-year (YoY), which is the first annual growth seen by the industry since February 2022. However, industry CTKs remained 1.3% lower than their pre-pandemic level in 2019 (Chart 1). The positive annual growth in global CTKs is also a result of a lower baseline in 2022. Compared with August 2022, SA CTKs in August increased by 0.9%, also for the first time since February 2022. This is also a 1.6 percentage point (ppt) improvement compared to the previous month. Due to the month-on-month (MoM) decline in SA CTKs throughout 2022, the August 2023 CTKs surpassed the levels seen in August 2022. Notably, SA CTKs have been consistently rising since March 2023, indicating the stable and resilient trend of the industry.²

Boeing and Airbus delivered 35 and 52 commercial jets in August 2023, compared to 35 and 41 deliveries, respectively, in the same month last year. Year-to-date, Boeing and Airbus have delivered 344 and 433 aircraft, compared to 277 and 382, respectively, during the first eight months of 2022. As of August, Boeing and Airbus are 67 and 51 deliveries ahead of last year's totals to date. In 2022, Airbus won the deliveries crown for the fourth year in a row by delivering 663 aircraft, compared to Boeing's 480 shipments. In 2021, Boeing and Airbus delivered 340 and 611 aircraft.³

¹ <https://www.iata.org/en/iata-repository/publications/economic-reports/air-passenger-market-analysis---august-2023/>

² <https://www.iata.org/en/iata-repository/publications/economic-reports/air-cargo-market-analysis---august-2023/>

³ <https://flightplan.forecastinternational.com/2023/09/14/airbus-and-boeing-report-august-2023-commercial-aircraft-orders-and-deliveries/>

FLYHT's Market

FLYHT has been providing real-time communications leveraging satellite networks to commercial, business and military aircraft since 1998 with its AFIRS solutions. FLYHT has recently expanded its AFIRS portfolio with its AFIRS Edge product line, providing 5G cellular data communications, Iridium Certus real-time IP communications, global voice and data flight deck communications, while still supporting and interfacing with other data channels on the aircraft including the legacy technologies still in use. This means FLYHT customers can move larger amounts of data off the aircraft while in the air, in real-time or on the ground post flight, and value can be more quickly realized from the data on board. This data value is achieved via the AFIRS Edge on-wing computing platform, or on the ground in the cloud via the JetBridge platform, feeding Actionable Intelligence applications, as well as making it easy for data to be consumed by other value generating applications and services used by the airline in the air (e.g., Electronic Flight Bags via the Aircraft Interface Device (AID) functionality of the Edge) and on the ground.

On the ground, FLYHT's Actionable Intelligence provides airlines with a sophisticated toolset, allowing the Company an opportunity to further expand into artificial intelligence opportunities. Actionable Intelligence provides insight into 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. FLYHT assists airlines in aligning the passenger experience, airline operations and positive working environment for enhanced profit opportunity, supported by a seamless technology partnership.

FLYHT's primary markets are commercial passenger and air freight transport operators who seek safer, more efficient and more reliable operations through making better use of available data, connectivity and information technologies. While competitors offer various point solutions to address one or some of the challenges airlines face, FLYHT offers a unique and wide-ranging combination of avionics hardware, services and SaaS solutions that leverage the latest technologies available. Other markets include business jets and government/military air transport aircraft.

An expanding market for FLYHT is the world's meteorological agencies and weather services providers. FLYHT enables these weather data customers to work with airlines to implement FLYHT's weather systems and solutions. FLYHT is the only provider that enables the full suite of Aircraft Based Observations, uniquely including water vapor humidity data that enables enhanced weather forecasting capabilities. The resulting predictive weather intelligence can also help airlines avoid disruptions, recover quicker following better predicted weather disruptions, and fly more efficiently by updating flight plans to avert weather systems that may impact fuel consumption and flight comfort, as well as costly re-routing for airport closures or planning for ground support and gate shutdowns due to severe weather.

Foreign Currency

The Canadian dollar weakened relative to the U.S. dollar but strengthened relative to the euro throughout Q3 2023, and overall the Company experienced a positive impact to net income compared to Q3 2022. As a result of these currency movements, the Company's revenues, of which a majority are denominated in U.S. dollars, with the proportion contributed by CrossConsense denominated in euros, were higher than they would have been had the foreign exchange rates not changed throughout Q3 2023. It is generally the standard of the aviation industry to conduct business in U.S. dollars. While a majority of the Company's operating and overhead costs are denominated in Canadian dollars, a significant portion of costs are U.S. dollar and euro denominated, and therefore a partial natural hedge exists against fluctuations of the Canadian dollar.

Environmental, Social and Governance

FLYHT is committed to implementing the highest standards of Environmental, Social and Governance (ESG) throughout its operations. ESG factors are important to business operations and can impact company value and investor decision making. In 2022 FLYHT initiated a review of its ESG practices and set priorities for measurement and goals for implementation. Each department was tasked with exploring their own opportunities and contributions to FLYHT's ESG strategy. The Company has set reporting metrics and is continually updating a roadmap and implementation timelines. FLYHT has selected the financial reports as the communication method for our ESG programs to ensure visibility for investors into FLYHT's ESG commitments.

Environment

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. FLYHT's data capabilities can also support airlines in meeting their environmental regulatory filing requirements, such as CORSIA and EU ETS. The Company's products support the industry's commitment to attain and measure net-zero 2050 in the key areas of increased operational efficiency and reduction of emissions.

More recently, FLYHT has been focused on helping our customers improve their environmental impact by optimizing their use of aircraft and ground infrastructure for efficiency and safety. FLYHT's FuelSense and ClearPort products provide support to make policy improvements and justify performance-based maintenance activities. With the addition of real-time notifications to frontline personnel, FLYHT's customers can mitigate the negative impact of inefficiencies as situations develop. As announced in March 2022, FLYHT showcased its partnership with Swoop Airlines to reduce emissions by eliminating non-essential APU usage. The FLYHT real-time APU monitoring and notification program allows an airline to reduce its APU run times by providing timely, targeted and actionable notifications, thereby reducing CO2 emissions and providing cost savings for the airline. This initiative is aligned with FLYHT's goal of providing environmentally beneficial solutions that enhance the profit potential for an airline and that create a greener, safer world. The APU consumes approximately 250 lbs of fuel per hour under normal operation. The very nature of FLYHT's business also supports long-term sustainability. Historically, many of the Company's sales have come from the retrofit market, in which the Company, by making upgrades to improve the functionality and safety of existing machinery, facilitates the re-use and recycling of aircraft and equipment that might otherwise be scrapped as obsolete.

With the announcement of the partnership between the UK Meteorological (UK Met) Office, Loganair and FLYHT, FLYHT will be producing the FLYHT-WVSS-II humidity sensors to improve the accuracy of weather forecasts and specifically the prediction of severe weather in the UK, with additional expected benefits for the aviation industry such as more efficient route planning and supporting aims to reduce CO2 emissions.⁴ Furthermore, FLYHT was awarded a contract by the National Oceanic and Atmospheric Administration (NOAA) to provide its water vapor sensor technology to help the U.S. National Weather Service (NWS) improve weather forecasting and warnings. The agreement is an expansion of FLYHT's long-standing relationship with NOAA and a recognition of the important role that aircraft-based observations ("ABOs") play in improving weather forecasting and warning models.

⁴ <https://www.metoffice.gov.uk/about-us/press-office/news/corporate/2023/wvss-water-vapour-sensors#:~:text=The%20partnership%20provides%20the%20Met,around%20the%20aircraft%20during%20flight.>

Measurable environmental impacts internal to FLYHT since 2017 include an 86% reduction in our operation's reliance on paper and the diversion of over 60 computers, four servers, and 100 monitors from landfills to be repurposed for those in need in the local community. We have upgraded our on-premises server from previous generation hardware to a more energy efficient hyper-converged model, allowing for greater virtualization with less hardware. FLYHT has also moved most users to smaller, more efficient laptop computers, replacing inefficient desktop computers. In addition, FLYHT has shifted to increased virtualization, relying on Amazon Web Services (AWS) data centers, which operate with 65% renewable energy as well as utilizing more efficient services and facilities to reduce consumption of non-renewable energy.

Social

FLYHT has established corporate policies dedicated to improving efficiency in the use of resources and staying abreast of the UN's Sustainable Development Goals and ESG frameworks that are being implemented industry wide. FLYHT's focus on product quality, continuous improvement, data security, and safety has been consistent and has been of the utmost importance to the success of the Company and its products.

FLYHT prioritizes a healthy work life balance by having flexible hours, encouraging a flexible hybrid workplace, providing paid time off for sickness and family responsibilities, opportunities and support to pursue training and professional development, and comprehensive health benefits. Policies that confirm FLYHT's commitment in these areas include a career development and training policy, and a flexible workplace policy. In addition, FLYHT conducts a periodic staff survey that gives all employees the opportunity to provide anonymous feedback on company culture, workplace satisfaction, workload and recognition, among others. FLYHT also tracks employee health and safety statistics to monitor that procedures are being followed to protect staff.

The development of a robust ESG policy is important to our employees. As the Company becomes more conscious of our contributions, a focus on ESG affects our employees' well-being and is an example of how we can operate as environmental and social citizens. Employees can apply the same principles in their personal lives. Employee participation continues to be critical in forming the Company's ESG direction and identifying key areas to focus on in each area of the business.

FLYHT has implemented a Security Management System (SecMS) to ensure that cyber, corporate, and product security protocols consistently fulfill all requirements mandated by government regulation and industry standards, are based on accurate assessment and effective mitigation of security risks, support the Company's vision and mission, values, and core business objectives, and are conducted in the most efficient and cost-effective manner, considering the operational and business environment. The SecMS applies to the protection of FLYHT's people, data, assets, technology systems, intellectual property, and products and services. It consists of eight core elements that provide the overall governance, risk, business resilience, and continuous improvement protocols that can be scaled to include various operational security functions.

One of the key aspects of an effective cyber security program is the ability to respond to and recover from a cyber attack in a timely manner with minimal impacts. We do this through robust planning, preparation, and training. FLYHT's Cyber Security Incident Response standard operating procedure set the foundation for this endeavour. It has established key roles and responsibilities and provides critical protocols to detect, analyze, contain, eradicate, and recover from threats to our digital products and infrastructure. This not only ensures that we protect our Company from cyber threats, it assures our customers that we are trusted partners in protecting their data and ensuring the safety of their operations.

FLYHT is committed to providing a workplace that is diverse, inclusive, and welcoming. Responsible recruitment, increased flexibility and balance, as well as training and development opportunities have resulted in creating an environment that fosters engaged contribution, innovation, and collaboration. Improvements in diversity can be seen over the past several years and can be measured from entry level to the senior management team and Board of Directors, providing a workplace where everyone contributes to the vision of being a global force in innovative data solutions. FLYHT is fully committed to doing what it takes to succeed in this area.

The Board of Directors and the senior management team believe that diversity is important to provide a range of perspectives, experiences and expertise to achieve effective stewardship. The Board of Directors and senior management teams have been developed with a wide range of viewpoints, backgrounds, skills, and expertise specific to the aviation technology sector and other industries or sectors that the Board of Directors believe are beneficial to the Company and its shareholders. At this time, the Company has not adopted: (i) a written diversity policy relating to the identification and nomination of members of designated groups; nor (ii) a target number or percentage, or range, for members of designated groups.

FLYHT has established a policy to address requirements as outlined in Canada's *Fighting Against Forced Labour and Child Labour in Supply Chains Act*. Starting in 2024, by May 31 of each year we will share the steps we have taken to prevent and reduce the risk that forced labour or child labour is used at any step of the production of goods in Canada or imported into Canada.

Governance

The Company's Corporate Disclosure Policy assists in governance of the conduct of its directors, officers, employees and consultants as it relates to communications with the public. Multiple Company policies form a code of conduct for this group. The Board of Directors believes that the Company's size also facilitates informal review of and discussions with employees and consultants. The Company has a whistleblower policy in place which is acknowledged by all employees upon hire, and which is periodically reviewed with all staff. A comprehensive anti-corruption policy ensures all relevant staff and consultants are aware and are trained appropriately. Relevant consultants are required to attest to compliance on a regular basis and all business opportunities are evaluated with this policy in mind. Directors are kept apprised of activities undertaken to minimize risk in this area. The Board of Directors monitors ethical conduct of the Company and ensures that it complies with applicable legal and regulatory requirements, including those of relevant securities commissions and stock exchanges. The fiduciary duties placed on individual directors by the Company's governing corporate legislation and the common law, as well as the restrictions placed by applicable corporate legislation on the individual director's participation in decisions of the Board of Directors in which the director has an interest, ensure that the Board of Directors operates independently of management and in the best interests of the Company.

Next steps

A key activity within FLYHT's ESG strategy has been preparation for climate-related disclosures. Although as a TSX Venture issuer FLYHT's implementation effort at this point will be largely voluntary, the Company believes it is important to assess material implications for the business regarding climate change risks and opportunities. Jurisdictions around the world are requiring that companies report within disclosure frameworks, and it is a strategic decision to evaluate the Company's efforts using a framework such as TCFD. Climate change and ESG measures are under the direct purview of the audit committee, which is working to establish policies and processes for this sub-committee. FLYHT has completed a review of climate change risks and opportunities, and an assessment of finance and investment policy alignment with environmental goals. Next steps involve establishing consistent review of and reporting on our material climate risks, while monitoring further mandates and requirements for disclosure.

In June 2023, the International Sustainability Standards Board ("ISSB") issued IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2 Climate-related Disclosures, which are effective for annual reporting periods beginning on or after January 1, 2024. These standards provide for transition relief in IFRS S1, allowing reporting entities to report on only climate-related risks and opportunities in the first year of reporting under the sustainability standards.

The Canadian Securities Administrators ("CSA") are responsible for determining the reporting requirements for public companies in Canada and are responsible for decisions related to the adoption of the sustainability disclosure standard, including the effective annual reporting dates. The CSA issued proposed National Instrument NI-51-107 - Disclosure of Climate-related Matters in October 2021. The CSA intends to consider the ISSB standards in addition to developments in United States reporting requirements in its decision relating to development of climate-related disclosure requirements for Canadian reporting issuers. The CSA will involve the Canadian Sustainability Standards Board ("CSSB") for a combined review of the suitability of adopting the ISSB standards in Canada. There is no requirement for public companies in Canada to adopt the ISSB standards until the CSA and CSSB have issued a decision on reporting requirements in Canada. While FLYHT is actively reviewing the ISSB standards we have not yet determined the impact on future financial statements nor has the Company quantified the costs to comply with such standards.

Q3 2023 Achievements and Activities

FLYHT signed several contracts with customers in Q3, including:

- A five-year renewal with a long-term customer for AFIRS services on its fleet of 14 Boeing aircraft, together with a trial for CrossConsense's ACSIS product
- A UK Met Office partnership with FLYHT and Loganair to improve forecasts of high impact weather, providing weather observations via the FLYHT-WVSS-II and AFIRS Edge products
- A contract with NOAA for FLYHT to provide the FLYHT-WVSS-II product together with the AFIRS Edge
- CrossConsense with a European flag carrier on a two-year aircraft data migration project
- Canada Jetlines for both the AFIRS 228 and AFIRS Edge hardware on their fleet, STC partner support for the A320 and the suite of FLYHT's software services

Also within Q3 2023, FLYHT obtained STC certification from the FAA for a specialized version of the AFIRS 228 on A319, A320 and A321 aircraft.

Results of Operations

Selected Results

	Q3 2023 \$	Q2 2023 \$	Q1 2023 \$	Q4 2022 \$
Assets	13,469,943	14,293,601	14,988,847	16,540,154
Non-current financial liabilities*	5,439,092	5,677,518	5,912,886	6,322,769
Revenue	5,099,019	6,043,543	4,757,230	7,241,758
Cost of sales	2,108,313	2,442,082	2,030,311	2,384,329
Gross profit	2,990,706	3,601,461	2,726,919	4,857,429
Gross profit %	58.7%	59.6%	57.3%	67.1%
Distribution expenses	1,543,074	1,587,397	1,759,353	1,661,256
Administration expenses	897,031	1,060,111	1,062,840	1,209,188
Research, development and certification engineering expenses	1,146,019	950,995	1,411,873	1,079,052
Results from operating activities	(595,418)	2,958	(1,507,147)	907,933
Depreciation and amortization	164,553	165,087	163,233	262,250
EBITDA*	(430,865)	168,045	(1,343,914)	1,170,183
Income (loss)	(728,655)	(168,807)	(1,657,114)	718,689
Income (loss) per share (basic)	(0.02)	(0.01)	(0.04)	0.01
Income (loss) per share (diluted)	(0.02)	(0.01)	(0.04)	0.01
	Q3 2022 \$	Q2 2022 \$	Q1 2022 \$	Q4 2021 \$
Assets	14,873,106	14,674,263	16,482,757	13,250,186
Non-current financial liabilities*	6,307,401	6,392,197	6,231,765	5,920,735
Revenue	6,725,373	4,881,372	5,030,657	2,527,961
Cost of sales	1,853,079	2,156,364	2,279,528	1,276,348
Gross profit	4,872,294	2,725,008	2,751,129	1,251,613
Gross profit %	72.4%	55.8%	54.7%	49.5%
Distribution expenses	1,531,091	1,339,537	1,379,783	969,992
Administration expenses	1,199,337	1,361,728	1,312,039	1,086,536
Research, development and certification engineering expenses	1,329,944	1,046,294	1,165,197	1,119,319
Results from operating activities	811,922	(1,022,551)	(1,105,890)	(1,924,234)
Depreciation and amortization	112,758	116,771	168,260	179,234
EBITDA*	924,680	(905,780)	(937,630)	(1,745,000)
Income (loss)	703,765	(1,141,140)	(1,284,347)	(2,444,054)
Income (loss) per share (basic)	0.02	(0.03)	(0.03)	(0.08)
Income (loss) per share (diluted)	0.02	(0.03)	(0.03)	(0.08)

*See Non-GAAP Financial Measures

Financial Position

Liquidity and Capital Resource

The Company's cash and cash equivalents at September 30, 2023 decreased to \$1,939,959 from \$2,647,650 at December 31, 2022. The Company has an operating demand loan available through a Canadian chartered bank for up to a maximum of \$2.0 million. The operating demand loan bears interest at the Canadian chartered bank prime plus 1.5%. 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, 2023.

The Company funded Q3 2023 operations primarily through cash proceeds received from sales. The Company will strive to self-fund operations throughout the remainder of 2023.

	September 30, 2023	December 31, 2022	Variance
	\$	\$	\$
Cash and cash equivalents	1,939,959	2,647,650	(707,691)
Trade and other receivables	3,751,129	5,127,338	(1,376,209)
Contract assets	266,861	121,046	145,815
Deposits and prepaid expenses	363,144	349,132	14,012
Inventory	818,078	1,385,048	(566,970)
Trade payables and accrued liabilities	(2,759,864)	(2,736,269)	(23,595)
Customer deposits	(869,836)	(376,668)	(493,168)
Contract liabilities	(163,017)	(922,952)	759,935
Loans and borrowings	(1,228,179)	(828,345)	(399,834)
Lease liability	(459,905)	(436,581)	(23,324)
Current tax liabilities	(4,827)	(10,541)	5,714
Working capital*	1,653,543	4,318,858	(2,665,315)

*See Non-GAAP Financial Measures

As at November 9, 2023 FLYHT's issued and outstanding share capital was 38,997,650.

The consistent achievement of positive earnings is necessary before the Company can consistently improve liquidity. Positive EBITDA in three of the last five quarters and positive operating cash flow in two of those quarters reflect recent progress in this area. The Company has continued to expand its cash flow potential through its continued marketing drive to clients around the world, contracts for delivery of hardware units and related services, and development of hardware and software solutions designed to access opportunities presented by changing industry technology.

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 a loss from operating activities in Q3 2023. At September 30, 2023, the Company had working capital of \$1.6 million compared to \$4.3 million as of December 31, 2022, a decrease of \$2.7 million. The Company ended Q3 2023 with balances of \$1.9 million in cash and cash equivalents and an undrawn credit facility of \$2.0 million.

For the Company to continue as a going concern longer-term, it will need to consistently achieve profitability and positive operating cash flows. The Company plans to expand its earnings and cash flow potential through its focused marketing efforts, particularly the presentation of Actionable Intelligence tools to customers and prospects and the pursuit of opportunities for the deployment of FLYHT's weather sensors, which are expected to result in additional contracts for delivery of hardware units and related services. Until achieving consistent 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 elect to scale back operations to create positive cash from existing revenue and/or raise 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 affect the Company's ability to achieve positive earnings and cash flows. The negative impact on the commercial air industry resulting from the COVID-19 pandemic was unprecedented. Starting in early 2020 FLYHT saw impact of the pandemic in revenue and trade receivable payments due to the impact of the pandemic on our customers. There has been recovery in our customer base, although geographic differences in rates and timing of recovery continue to be seen. Global airline capacity is expected to reach pre-COVID levels in October 2023, but profits still lag¹. There is continued risk until such a time as the global aviation industry recovers fully.

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

Financial Instruments

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

¹ <https://www.bloomberg.com/news/articles/2023-10-08/air-travel-finally-reaches-pre-covid-l-evels-but-profits-suffer#xj4y7vzkg>

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, 2023.

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 may disable data transmissions where the customer has not fulfilled its financial obligations, or halt provision of service and support. The recoverability of the Company's receivables has been impacted by the consequences of the pandemic on the global airline industry, which has been reflected in the bad debt reserve.

Contractual Obligations

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

September 30, 2023	< 1 year \$	1-2 years \$	2-5 years \$	> 5 years \$	Total \$
Accounts payable	2,237,550	-	-	-	2,237,550
Compensation and statutory deductions	456,803	-	-	-	456,803
Accrued liabilities	65,511	-	-	-	65,511
Lease payments	459,905	464,704	1,087,773	842,584	2,854,966
Loans and borrowings	1,296,034	1,340,904	2,856,234	560,921	6,054,093
Total	4,515,803	1,805,608	3,944,007	1,403,505	11,668,923

Government Loans

Funding obtained via four governmental programs are included in the Loans and Borrowings totals on the Statement of Financial Position.

Under the Strategic Aerospace and Defence Initiative (SADI), at September 30, 2023 the Company has an outstanding repayable balance of \$822,219. 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 Q3 2023 (Q3 2022: \$nil). The carrying value of the amount owing under this program at September 30, 2023 is \$1,275,049 (December 31, 2022: \$1,331,720).

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 of \$2,350,000 was received. The amount is repayable over five years commencing January 1, 2020. Contract amendments in 2020 adjusted the payment dates, with the final payment date pushed back to September 2025. Repayments in Q3 2023 totaled \$117,000 (Q3 2022: \$117,000). The carrying value of the amount owing under this program at September 30, 2023 is \$854,788 (December 31, 2022: \$1,132,345).

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 of \$2,761,000 was received, repayable over five years commencing October 1, 2021. Contract amendments in 2021 adjusted the repayment start date to October 1, 2023. The carrying value of the amount owing under this program at September 30, 2023 is \$2,319,447 (December 31, 2022: \$2,202,931).

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 were comprised of interest only, with the principal and accrued interest payable over the remaining 9 years. Repayments in Q3 2023 totaled \$6,945 (Q3 2022: \$6,945). The carrying value of the amount owing under this program at September 30, 2023 is \$193,546 (December 31, 2022: \$210,777).

A summary of the carrying value of the government loans as at September 30, 2023 and 2022 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		
	2023 \$	2022 \$	Variance \$	2023 \$	2022 \$	Variance \$
Opening Balance	4,650,803	4,748,283	(97,480)	4,877,773	4,456,286	421,487
Received	-	-	-	-	669,159	(669,159)
Grant Portion	-	-	-	-	(182,250)	182,250
Interest accretion	118,166	117,649	517	352,348	340,545	11,803
Repayment	(126,139)	(123,944)	(2,195)	(587,291)	(541,752)	(45,539)
Carrying amount at September 30	4,642,830	4,741,988	(99,158)	4,642,830	4,741,988	(99,158)
Less current portion	1,228,179	690,783	537,396	1,228,179	690,783	537,396
Non-current portion	3,414,651	4,051,205	(636,554)	3,414,651	4,051,205	(636,554)

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 technical 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, 2023 and 2022. Payments were received for 16 installation kits in the third quarter of 2023 compared to 8 received in the third quarter of 2022. In the nine months ended September 30, 2023 payment was received for 68 kits, compared to the 60 kits in the same timeframe of 2022, with variations in aircraft configuration and installation kit requirements resulting in pricing differences per kit.

	For the three months ended September 30			For the nine months ended September 30		
	2023 \$	2022 \$	Variance	2023 \$	2022 \$	Variance
Opening balance	564,123	912,048	(347,925)	376,668	609,555	(232,887)
Payments received	753,034	455,138	297,896	2,031,485	1,819,023	212,462
Recognized as revenue	(447,321)	(653,817)	206,496	(1,538,317)	(1,715,209)	176,892
Balance, September 30	869,836	713,369	156,467	869,836	713,369	156,467

Comprehensive Loss

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, weather data, and hosting and support of maintenance systems and associated data. These fees are recognized as the service is provided each month. **Hardware** includes the income from hardware sales and related parts required to install the unit, spare units and installation parts. **Licensing** includes sales of modems with a related manufacturing license fee. **Technical Services** includes all services offered by the Company, including repairs, training services and other expertise.

Revenue sources

	For the three months ended September 30			For the nine months ended September 30		
	2023 \$	2022 \$	Variance	2023 \$	2022 \$	Variance
SaaS	2,787,664	2,073,284	714,380	7,891,437	5,904,268	1,987,169
Hardware	1,001,817	480,064	521,753	3,945,523	3,502,344	443,179
Licensing	494,573	3,536,153	(3,041,580)	1,936,574	6,070,762	(4,134,188)
Technical Services	814,965	635,872	179,093	2,126,258	1,160,028	966,230
Total	5,099,019	6,725,373	(1,626,354)	15,899,792	16,637,402	(737,610)

For the nine months ended September 30, 2023, total revenue decreased 4.4% from \$16,637,402 in 2022 to \$15,899,792 in 2023.

SaaS revenue increased 34.5% in Q3 2023 over Q3 2022. The post-pandemic recovery of the Company's customer base and an increase in weather data being provided to meteorological organizations were the main contributors to QTD increases, with the addition of CrossConsense revenues also a factor in increases YTD.

Hardware revenue in Q3 2023 increased 108.7% as compared to Q3 2022, with a total of 18 installation kits shipped in Q3 2023 compared to 8 kits shipped in Q3 2022. YTD increases of 12.7% resulted from a total of 62 installation kits shipped compared to 53 installation kits shipped in the first three quarters of 2022.

Licensing revenue decreased 86.0% from Q3 2022 and decreased 68.1% YTD due to differences in the number of modems and associated license fees ordered for delivery in comparative periods. Licensing revenues in 2022 were exceptionally large in the history of that program.

Technical Services revenue increased 28.2% for Q3 2023 compared to Q3 2022 as a result of data migration project work delivered as well as an increase in customer requests for certification services. The addition of CrossConsense revenues starting in late Q1 2022 were the main factor in a YTD increase of 83.3%.

Revenue sources for the last eight quarters were:

	Q3 2023	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022	Q4 2021
SaaS	2,787,664	2,690,573	2,413,200	2,253,618	2,073,284	2,155,912	1,675,072	1,500,110
Hardware	1,001,817	1,172,261	1,771,445	1,217,860	480,064	912,682	2,109,598	590,975
Licensing	494,573	1,433,264	8,737	3,030,368	3,536,153	1,399,903	1,134,706	356,197
Technical Services	814,965	747,445	563,848	739,912	635,872	412,875	111,281	80,679
Total	5,099,019	6,043,543	4,757,230	7,241,758	6,725,373	4,881,372	5,030,657	2,527,961

Geographical distribution of revenue sources was:

	Q3 2023		Q3 2022		YTD 2023		YTD 2022	
	\$	%	\$	%	\$	%	\$	%
United States & Mexico	1,908,288	37.4	4,197,196	62.4	4,810,639	30.2	8,441,393	50.8
Asia	419,829	8.2	178,284	2.7	1,240,993	7.8	735,943	4.4
China	229,807	4.5	403,389	6.0	964,872	6.1	1,369,390	8.2
Middle East	167,892	3.3	150,434	2.2	504,963	3.2	472,764	2.9
Canada	265,717	5.2	348,404	5.2	2,863,717	18.0	2,261,665	13.6
Australia	124,993	2.5	61,840	0.9	526,869	3.3	272,036	1.6
Africa	143,853	2.8	122,425	1.8	409,104	2.6	369,175	2.2
Europe	1,816,004	35.6	1,247,100	18.6	4,522,246	28.4	2,558,552	15.4
South/Central America	22,636	0.5	16,301	0.2	56,389	0.4	156,484	0.9
Total	5,099,019	100.0	6,725,373	100.0	15,899,792	100.0	16,637,402	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, installation support, project management and software implementation, 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 2023 was 41.3% compared to 27.6% in Q3 2022. Gross profit decreased due to differences in the mix of revenue sources, mainly due to differences in the licensing revenue category. Gross profit will fluctuate quarter over quarter depending on the mix of revenue categories.

Gross profit for the last eight quarters was:

	Q3 2023	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022	Q4 2021
Gross Profit %	58.7	59.6	57.3	67.1	72.4	55.8	54.7	49.5
Cost of Sales	41.3	40.4	42.7	32.9	27.6	44.2	45.3	50.5

Distribution Expenses (Recovery)

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

Major Category	Q3 2023 \$	Q3 2022 \$	Variance \$	YTD 2023 \$	YTD 2022 \$	Variance \$
Salaries and benefits	957,208	1,070,837	(113,629)	3,148,705	3,089,896	58,809
Share based compensation	14,125	13,397	728	38,644	30,034	8,610
Contract labour	256,909	214,393	42,516	720,445	610,556	109,889
Office	70,561	51,345	19,216	206,739	149,237	57,502
Travel	44,361	87,551	(43,190)	252,095	156,311	95,784
Equipment and maintenance	60,758	58,784	1,974	178,877	120,676	58,201
Depreciation and amortization	53,813	32,043	21,770	161,110	161,188	(78)
Marketing	14,878	37,298	(22,420)	97,869	76,903	20,966
Government grants	-	-	-	-	(222,108)	222,108
Bad debt reserve	70,461	(34,557)	105,018	85,340	77,718	7,622
Total	1,543,074	1,531,091	11,983	4,889,824	4,250,411	639,413

Distribution expenses increased 0.8% from Q3 2022 to Q3 2023, and 15.0% YTD 2023 compared to YTD 2022. The COVID-19 related government grants received in 2022 that were not available in 2023 as well as the CrossConsense business combination in late Q1 2022 were both factors in YTD increases.

Salaries and benefits showed an increase for the first nine months of 2023 due to staff additions from the acquisition of CrossConsense in March 2022; with a decrease in Q3 2023 compared to Q3 2022 as a result of changes in staffing levels in this area, partially offset with **Contract labour** increases. **Contract labour** increased both for the quarter as well as YTD with the addition of resources dedicated to business development for our newest products.

Travel decreased in Q3 2023 compared to Q3 2022 with a difference in number of personnel travelling; but increased YTD, reflecting an overall increase in in-person meetings and conferences supporting marketing and sales activities, while per quarter needs vary.

Equipment and maintenance YTD increases reflected the addition of costs related to CrossConsense's third-party server hosting facility in late Q1 2022.

Office expenses show a YTD increase mainly due to the Q1 2022 additon of the Frankfurt office location and associated expenses.

Government grants related to COVID-19 did not occur in 2023, with the conclusion of these grants in 2022.

Bad debt reserve quarter over quarter variances reflect differences in bad debt estimates in each period.

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 2023 \$	Q3 2022 \$	Variance \$	YTD 2023 \$	YTD 2022 \$	Variance \$
Salaries and benefits	389,964	544,640	(154,676)	1,278,250	1,462,075	(183,825)
Share based compensation	17,000	13,029	3,971	53,386	57,420	(4,034)
Contract labour	30,820	203,918	(173,098)	233,601	940,520	(706,919)
Office	168,672	163,834	4,838	524,660	499,543	25,117
Legal fees	19,803	20,096	(293)	40,982	155,761	(114,779)
Audit and accounting	83,474	85,193	(1,719)	253,394	208,653	44,741
Investor relations	36,930	19,222	17,708	138,318	123,089	15,229
Travel	10,732	30,618	(19,886)	32,962	117,870	(84,908)
Equipment and maintenance	66,934	83,963	(17,029)	245,692	251,987	(6,295)
Depreciation and amortization	72,702	34,553	38,149	218,281	95,338	122,943
Government grants	-	-	-	-	(48,258)	48,258
Other	-	271	(271)	456	9,106	(8,650)
Total	897,031	1,199,337	(302,306)	3,019,982	3,873,104	(853,122)

Administration expenses decreased by 25.2% from Q3 2022 to Q3 2023 and 22.0% YTD, mainly due to a reduction in salaries and benefits and contract labour.

Salaries and benefits and Contract labour decreased in Q3 2023 as well as YTD due to reductions in resources engaged in administrative activities including the Q1 2022 CrossConsense acquisition, with the addition of CrossConsense staff in March 2022 offsetting a portion of the YTD difference.

Legal expenses have decreased YTD as the CrossConsense acquisition costs incurred in early 2022 did not re-occur in 2023.

Travel decreased in Q3 2023 compared to Q3 2022, as well as YTD, with differences in travel requirements for investor relations purposes and the non-recurring travel required in 2022 in support of the CrossConsense acquisition.

Depreciation and amortization increased both for the quarter as well as YTD due to the amortization of intangible assets acquired in the Q1 2022 CrossConsense business combination.

Government grants related to COVID-19 did not occur in 2023, with the conclusion of these grants in 2022.

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 2023 \$	Q3 2022 \$	Variance \$	YTD 2023 \$	YTD 2022 \$	Variance \$
Salaries and benefits	970,901	1,108,859	(137,958)	3,044,692	3,303,054	(258,362)
Share based compensation	6,722	6,798	(76)	17,993	13,284	4,709
Contract labour	59,480	70,484	(11,004)	448,961	326,054	122,907
Office	34,543	46,118	(11,575)	103,223	100,415	2,808
Travel	13,086	18,112	(5,026)	25,576	41,353	(15,777)
Equipment and maintenance	17,201	21,726	(4,525)	81,547	62,374	19,173
Components	11,671	11,685	(14)	59,175	36,624	22,551
Depreciation and amortization	38,038	46,162	(8,124)	113,482	141,263	(27,781)
SR&ED credit	-	-	-	(342,639)	(148,637)	(194,002)
Government grants	(5,623)	-	(5,623)	(43,123)	(334,488)	291,365
Other	-	-	-	-	139	(139)
Total	1,146,019	1,329,944	(183,925)	3,508,887	3,541,435	(32,548)

Research and Development expenses were 13.8% lower in Q3 2023 compared to the prior year's third quarter, with a 0.9% decrease YTD. Research and development costs vary according to specific project requirements.

Salaries and benefits expenses decreased in Q3 2023 as compared to Q3 2022 while being offset with YTD increases in **Contract labour** as a result of resource requirements varying dependent on the needs of various R&D initiatives.

The **SR&ED credit** recognized in Q3 2023 versus Q2 2022 reflects an increase in expenses eligible for refundable tax credits under this Canadian governmental program.

Government grants received in 2023 consisted of Alberta Innovates government funding related to R&D programs. Grants related to COVID-19 did not occur in 2023, with the conclusion of these grants in 2022.

Net Finance Costs

Major Category	Q3 2023 \$	Q3 2022 \$	Variance \$	YTD 2023 \$	YTD 2022 \$	Variance \$
Interest income	(7,874)	(4,724)	(3,150)	(29,760)	(13,240)	(16,520)
Net foreign exchange loss (gain)	(39,763)	(52,264)	12,501	(38,139)	(75,389)	37,250
Bank service charges	29,194	9,097	20,097	62,105	27,208	34,897
Interest expense	27,367	29,129	(1,762)	84,476	84,776	(300)
Government loan accretion	118,166	120,124	(1,958)	352,348	348,007	4,341
Net finance costs	127,090	101,362	25,728	431,030	371,362	59,668

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 and the euro. A weakening of the Canadian dollar in relation to the U.S. dollar and a strengthening of the euro in Q3 2023 gave rise to foreign exchange gains in Q3 2023 compared to Q3 2022 on foreign currency denominated sales and purchases, in combination with fluctuations in U.S. denominated assets and liabilities.

Net Income (Loss) & EBITDA

Major Category	Q3 2023 \$	Q3 2022 \$	Variance \$	YTD 2023 \$	YTD 2022 \$	Variance \$
Net income (loss)	(728,655)	703,765	(1,432,420)	(2,554,576)	(1,721,722)	(832,854)
Finance costs	127,090	101,362	25,728	431,030	371,362	59,668
Tax expense	6,147	6,795	(648)	23,939	33,841	(9,902)
Depreciation and amortization	164,553	112,758	51,795	492,873	397,789	95,084
EBITDA	(430,865)	924,680	(1,355,545)	(1,606,734)	(918,730)	(688,004)

Business Combination

On March 17, 2022 the Company acquired 100% of the shares of CrossConsense GmbH & Co. KG ("CrossConsense"). Founded in 2002, Frankfurt Germany-based CrossConsense develops and markets software to support commercial aviation maintenance management. Products include a predictive maintenance troubleshooting and engineering tool; software to support aircraft maintenance, repair and data migration; and live data dashboards to assist aircraft maintenance teams. CrossConsense has also constructed a progressive web application plus native apps that offer up-to-date data on an airline's fleet status. Additionally, CrossConsense offers consulting and support services as well as hosting, database operation and performance monitoring of commercial aircraft maintenance applications. This acquisition is expected to accelerate FLYHT's strategic roadmap to build out a maintenance software capability and fulfilled the Company's goal to increase its presence in the European and Middle East markets.

Under terms of the agreement, FLYHT (through its wholly owned German subsidiary formed as part of this transaction) acquired all of the outstanding securities of CrossConsense for \$1.25 million in cash and 1.9 million common shares of the Company, valued at \$1.235 million based on the fair value of each common share of the Company on the closing date of \$0.65 per share. The shares were held in escrow, to be released equally in 1/3 increments at 4-, 16- and 28-months following issuance on the transaction's closing date. Also included in the purchase price was other consideration valued at \$192,000.

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, but it is important to identify those that could have a material effect on business or results of operations. Such risks are listed below; the areas defined are not exhaustive.

Impact of COVID-19 pandemic on 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 consistent positive earnings and cash flows. The negative impact on the commercial air industry resulting from the COVID-19 pandemic was unprecedented. Starting in early 2020, FLYHT saw impact of the pandemic in revenue and trade receivable payments due to the impact of the pandemic on our customers. The COVID-19 pandemic has also had an impact on the supply chain in the form of longer lead-times and pricing increases. These longer lead-times and pricing increases are starting to subside but have resulted in pressure to increase inventory holdings to mitigate potential schedule delays. There has been recovery in FLYHT's customer base, although geographic differences in rates and timing of recovery continue to be seen. Global airline capacity is expected to reach pre-COVID levels in October 2023, but profits still lag. There is continued risk until such a time as the industry recovers fully.

Production and Physical Workspace Risk

FLYHT relies on a physical infrastructure to carry out certain activities. Local as well as widespread impacts such as fire and extreme weather could impact FLYHT's ability to carry out operations. FLYHT maintains a business continuity plan to mitigate the impact of such events.

Climate Change Risk

Airlines are responsible for a significant portion of the emissions that are known to have negative climate impact. This is both an opportunity and a risk for FLYHT. FLYHT's products can aid our customers in reducing their environmental impact through optimizing the use of their assets, including a reduction in emissions. The most significant risk to FLYHT is a reduction in customers' operations due to social or other pressures, or regulation, to limit flights. If this risk were to be realized, it could eventually erode FLYHT's revenue in tandem with that of our customers.

Policy and Regulation Risk

FLYHT customers operate in a variety of jurisdictions. Government policy and regulation changes could have impact on FLYHT, both positively and negatively. Impacts could include, but not be limited to, FLYHT's ability to collect data, disseminate data and other constraints related to provision of services. Changes to governmental policy and regulations are an inherently challenging area and could have material impact to FLYHT's future revenue and expenses.

Geo-political Risk

Geopolitical risk covers a wide array of risks associated with any sort of conflict or tension between states, with the potential to impact global trade, security, and political relations, with secondary results including impacts to commercial aviation, and commodity pricing increases. The Company has a globally diverse customer base, with diversity also in customer operations, including both passenger travel and freight operations. This multi-level diversity helps mitigate the impact of regional reductions and market segment reductions in aviation due to travel restrictions, sanctions, or degradation in infrastructure. If further pressure due to geopolitical factors emerge, FLYHT will respond accordingly.

Employee Travel Risk

FLYHT staff have resumed global travel to meet with current and potential customers, some of whom are in jurisdictions where there may be increased risk to their personal safety and security. Travel requests are reviewed to ensure that staff are not travelling to locations that place them at undue risk. Travel safety and security resources are available to staff, including pre-departure risk assessments, travel briefings, safety awareness training, flight and hotel itinerary tracking, and access to a 24/7 contact for emergency travel medical assistance.

Installations at C-checks

Some of the Company's hardware products 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 hardware and the Company will not receive recurring revenue connected with the monthly service offerings until the hardware components are installed and operating.

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 expense as possible, while installing as early as possible within the contract term. The Company's standard agreement requires payment 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 software services many of FLYHT's early adopters and is implemented on redundant fixed server platforms in Canada. CrossConsense hosts software services on redundant fixed server platforms in Germany. Other services are implemented in the Amazon Web Services (AWS) cloud in various regions. All the enterprise services exist with the possibility that their security could be compromised. FLYHT employs best practices to ensure that all 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, result in a limited loss of data and cause various contractual breaches. To date, no such breach has knowingly occurred on any of the Company's systems. FLYHT continues to make improvements to the security posture of systems, with a particular emphasis on transitioning systems to the cloud where it is contractually and financially viable.

Foreign Currency Fluctuations

The Company recognizes most of its sales in U.S. dollars with a lesser amount recognized in euros, so there is a risk of currency fluctuation. The major portion of operating and overhead costs are denominated in Canadian dollars, though certain payroll costs, costs of goods sold, marketing and distribution costs are U.S. dollar and euro 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, particularly on a value-added product such as the Company offers. To address this risk, FLYHT's sales team has developed several strategies. FLYHT has established a global sales presence, with agents responsible for every continent. While some economies of the world may be in a slump or downturn, FLYHT often finds success in growing markets. The Company also demonstrates to potential customers the impressive return on investment model, how quickly customers are able to improve operational efficiency, and ultimately how much AFIRS will save them in operating costs.

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.

Revenues Associated with TAMDAR

TAMDAR has been installed on almost 300 aircraft for the purpose of collecting weather data, which is supplemented with AMDAR 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 and AMDAR data could be diminished or stopped. This lack of perceived value could depend upon a variety of factors including procurement changes from the United States Government. FLYHT's strategy to mitigate these potential problems has been to invest in quality control programs to ensure that sensors are properly calibrated and producing valid and valuable data, and to supplement this data whenever possible with AMDAR weather data.

Employee Retention

The high demand for technology workers, particularly in the areas of software development and data science, together with employee retention challenges faced by most companies, present challenges for FLYHT in attracting and retaining top talent. The pandemic related shift to remote-first workplaces has been both an opportunity and a threat to FLYHT. As FLYHT has embraced aspects of remote-first work, the Company has been able to benefit from a larger talent pool. Conversely, FLYHT employees are likely targets for recruiting. FLYHT mitigates this risk by encouraging a healthy work environment, work-life balance and competitive compensation.

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. Certain parts can be delayed in shipping or availability, which could cause a delay in servicing the AFIRS 220. FLYHT aims to avoid the risk of not having the necessary supplies by managing existing inventories of key parts. Additionally, the Company maintains close communication with its partners and suppliers to manage key components for the AFIRS 220 units.
- 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 could be delayed in shipping or availability, which can cause a delay in receiving newly built AFIRS 228 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 in the future. The AFIRS 228 is serviced in different ways; by the contract manufacturer, at FLYHT's facility or by the Company's contract maintenance facility in China. Where a unit is repaired or serviced depends on a multitude of factors and is managed by FLYHT's customer support team.
- The AFIRS Edge units are built by a contract manufacturer. The Company relies on partners, suppliers and special parts to complete unit builds. Certain parts could be delayed in shipping or availability, which could cause a delay in receiving newly built AFIRS Edge 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 Edge units will be available in the future. The AFIRS Edge is serviced in different ways; either by the contract manufacturer, or at FLYHT's facility. Where a unit is repaired or serviced depends on a multitude of factors and is managed by FLYHT's customer support team.

Proprietary Protection

Patent rights are important to the Company, with the AFIRS technology being one of the Company's primary revenue sources. 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.

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.

Generally, the patent position of advanced technology companies 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, FLYHT does not know with certainty whether 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 to meet any other requirement for patentability.

Cyber Security Risk

Cyber security includes the protection and resiliency of both the Company's corporate and customer facing systems from information disclosure, theft or damage to hardware, software, electronic data, as well as the disruption or misdirection of the services they provide. FLYHT is an IATA Aviation Cyber Security Strategic Partner, which provides FLYHT a key opportunity to contribute to the development of industry standards, influence the cyber security regulatory environment for aviation, and to collaborate with key aviation cyber security leaders, including major international airlines, equipment manufactures, and international regulatory bodies.

FLYHT has responded to the increase in cyber threats within our Security Management System (SecMS), with an emphasis on addressing these threats within the industry. Specifically, the Company has taken actions to assess potential threats, identify and implement recommendations, including the addition of dedicated resources to further harden our systems, and improve our preparedness.

Contractual Arrangement

Certain of the Company's sales contracts require that, in the event the Chinese government restricts use of the Iridium satellite network, 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 Satellite LLC. versus the former annual grant system. Given the prevalent use of Iridium services in China and the extensions of waivers reported by Iridium Satellite LLC, FLYHT believes the likelihood of a liability under these contracts is remote.

In Q3 2023 FLYHT issued a performance guarantee valued at £500,000 as required by a customer contract. The guarantee was issued through an available banking facility that allows for a maximum of \$900,000 and is insured by Export Development Canada. The associated costs have been recognized in the Statement of Comprehensive Income, Distribution expenses category. The Company has assessed the expected loss arising from the guarantee to not be material; therefore, no provision has been recognized.

Transactions with Related Parties

Since 2020, a company related to an officer of FLYHT has provided marketing services to FLYHT. A company related to a director of FLYHT provided financial consulting services from Q3 2021 to Q2 2022. All of the transactions with both related parties are considered in the normal course of business and have been measured at their exchange amount.

Amounts included in:	For the three months ended September 30		For the nine months ended September 30	
	2023 \$	2022 \$	2023 \$	2022 \$
Contract labour	22,500	31,000	72,500	123,271
Accounts payable	22,500	21,000	22,500	21,000

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, 2023 and 2022.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION (UNAUDITED)

	September 30, 2023	December 31, 2022
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	1,939,959	2,647,650
Trade and other receivables	3,751,129	5,127,338
Contract assets	266,861	121,046
Deposits and prepaid expenses	363,144	349,132
Inventory	818,078	1,385,048
Total current assets	7,139,171	9,630,214
Non-current assets		
Property and equipment	2,530,376	2,839,104
Goodwill	858,959	867,726
Intangible assets	1,727,601	1,886,029
Inventory	1,213,836	1,317,081
Total non-current assets	6,330,772	6,909,940
Total assets	13,469,943	16,540,154
Liabilities		
Current liabilities		
Trade payables and accrued liabilities	2,759,864	2,736,269
Customer deposits	869,836	376,668
Contract liabilities	163,017	922,952
Loans and borrowings	1,228,179	828,345
Lease liability	459,905	436,581
Tax liability	4,827	10,541
Total current liabilities	5,485,628	5,311,356
Non-current liabilities		
Loans and borrowings	3,414,651	4,049,428
Lease liability	2,024,441	2,273,341
Provisions	15,738	11,087
Total non-current liabilities	5,454,830	6,333,856
Total liabilities	10,940,458	11,645,212
Equity		
Share capital	72,607,412	72,427,102
Contributed surplus	12,491,155	12,462,645
Cumulative translation adjustment	128,128	147,829
Deficit	(82,697,210)	(80,142,634)
Total equity	2,529,485	4,894,942
Total liabilities and equity	13,469,943	16,540,154

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

On behalf of the board


Director – Doug Marlin


Director – Paul Takalo

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

	For the three months ended September 30		For the nine months ended September 30	
	2023 \$	2022 \$	2023 \$	2022 \$
Revenue (note 7)	5,099,019	6,725,373	15,899,792	16,637,402
Cost of sales	2,108,313	1,853,079	6,580,706	6,288,971
Gross profit	2,990,706	4,872,294	9,319,086	10,348,431
Distribution expenses	1,543,074	1,531,091	4,889,824	4,250,411
Administration expenses	897,031	1,199,337	3,019,982	3,873,104
Research, development and certification engineering expenses	1,146,019	1,329,944	3,508,887	3,541,435
Income (loss) from operating activities	(595,418)	811,922	(2,099,607)	(1,316,519)
Finance income	(47,637)	(56,988)	(67,899)	(88,629)
Finance costs	174,727	158,350	498,929	459,991
Net finance costs	127,090	101,362	431,030	371,362
Income (loss) before income tax	(722,508)	710,560	(2,530,637)	(1,687,881)
Income tax expense	(6,147)	(6,795)	(23,939)	(33,841)
Income (loss) for the period	(728,655)	703,765	(2,554,576)	(1,721,722)
Foreign currency translation adjustment	27,874	82,746	(19,701)	5,970
Comprehensive income (loss) for the period	(700,781)	786,511	(2,574,277)	(1,715,752)
Income (loss) per share				
Basic and diluted income (loss) per share (note 6)	(0.02)	0.02	(0.07)	(0.05)

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY (UNAUDITED)

For the nine months ended September 30, 2023 and 2022

	Share Capital	Warrants	Contributed Surplus	Cumulative Translation Adjustment	Deficit	Total Equity (Deficit)
	\$	\$	\$		\$	\$
Balance at January 1, 2023	72,427,102	-	12,462,645	147,829	(80,142,634)	4,894,942
Income (loss) for the period	-	-	-	(19,701)	(2,554,576)	(2,574,277)
Total comprehensive income (loss)	-	-	-	(19,701)	(2,554,576)	(2,574,277)
Contributions by and distributions to owners						
Issue of common shares	-	-	-	-	-	-
Share-based payment transactions	-	-	110,023	-	-	110,023
Share options exercised	180,310	-	(81,513)	-	-	98,797
Total contributions by and distributions to owners	180,310	-	28,510	-	-	208,820
Balance at September 30, 2023	72,607,412	-	12,491,155	128,128	(82,697,210)	2,529,485
Balance at January 1, 2022	70,779,594	954,535	11,421,730	(51,747)	(79,139,601)	3,964,511
Loss for the period	-	-	-	5,970	(1,721,722)	(1,715,752)
Total comprehensive loss	-	-	-	5,970	(1,721,722)	(1,715,752)
Contributions by and distributions to owners						
Issue of common shares	1,235,000	-	-	-	-	1,235,000
Share-based payment transactions	-	-	143,338	-	-	143,338
Share options exercised	392,233	-	(85,628)	-	-	306,605
Warrants expired	-	(954,535)	954,535	-	-	-
Total contributions by and distributions to owners	1,627,233	(954,535)	1,012,245	-	-	1,684,943
Balance at September 30, 2022	72,406,827	-	12,433,975	(45,777)	(80,861,323)	3,933,702

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS (UNAUDITED)

For the nine months ended September 30

	2023	2022
	\$	\$
Cash flows used in operating activities		
Loss for the period	(2,554,576)	(1,721,722)
Depreciation, amortization and impairment of non-financial assets	492,873	397,789
Disposal of non-financial assets	-	11,861
Lease liability accretion	84,476	84,776
Grant portion of contributions from WINN	-	(182,250)
CARES (ERTC) grant	-	(422,603)
Alberta Innovates grant	(43,123)	-
Government loan accretion	352,348	348,007
Equity-settled share-based payment expenses	110,023	143,338
Change in inventories	670,215	693,419
Change in trade and other receivables	1,414,361	(2,333,382)
Change in contract assets	(146,643)	33,182
Change in prepayments	(14,012)	(144,131)
Change in trade and other payables	(6,194)	816,719
Change in customer deposits	493,167	103,814
Change in contract liabilities	(834,935)	163,013
Change in provisions	(298)	9,218
Unrealized foreign exchange loss	(34,921)	(75,813)
BDC (HASCAP) interest paid	(6,742)	(6,944)
Lease interest paid	(84,476)	(81,452)
Interest income	(29,760)	(13,240)
Interest received	30,587	15,316
Income tax expense	23,939	33,841
Income tax paid	(24,704)	(9,631)
Net cash used in operating activities	(108,396)	(2,136,875)
Cash flows used in investing activities		
Acquisitions of property and equipment	(14,260)	(57,142)
Proceeds from sale of property and equipment	-	100
Acquisition of CrossConsense	-	(1,243,500)
Net cash used in investing activities	(14,260)	(1,300,542)
Cash flows from (used in) financing activities		
Proceeds from exercise of share options	98,797	306,605
Payment of lease liabilities	(249,552)	(297,829)
Contributions from CARES (ERTC)	-	422,603
Contributions from Alberta Innovates	118,123	-
Contributions from WINN	-	669,159
Repayment of borrowings	(580,548)	(541,752)
Net cash from (used in) financing activities	(613,180)	558,786
Net decrease in cash and cash equivalents	(735,836)	(2,878,633)
Cash and cash equivalents, beginning	2,647,650	4,520,591
Effect of exchange rate fluctuations on cash held	28,145	137,114
Cash and cash equivalents, ending	1,939,959	1,779,074

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 offices in Denver CO, USA and Frankfurt, Germany. FLYHT Aerospace Solutions Ltd 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 and delivers industry leading solutions to improve aviation safety, efficiency, and profitability. This unique capability is driven by a suite of patented aircraft certified hardware products and software solutions. These include AFIRS, an aircraft satcom/interface device, which enables cockpit voice communications, real-time aircraft state analysis, and the transmission of aircraft data while in-flight. The AFIRS Edge is a state-of-the-art 5G Wireless Quick Access Recorder (WQAR), Aircraft Interface Device (AID), and Aircraft Condition and Monitoring System (ACMS). The Edge can be interfaced with FLYHT’s TAMDAR probe or the FLYHT-WVSS-II relative humidity sensor to deliver airborne weather and humidity data in real-time. FLYHT complements the AFIRS airborne systems with enterprise applications that help airlines improve operational efficiency and situational awareness including UpTime, FleetWatch, FuelSense and ClearPort services.

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, 2022 which can be found on SEDAR (<https://www.sedar.com>). These unaudited condensed consolidated interim financial statements were approved by the Board of Directors on November 9, 2023.

(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, and of the Company’s German subsidiary is the euro.

(d) COVID-19

Starting in early 2020 FLYHT saw impact of the pandemic in revenue and trade receivable payments due to the impact of the pandemic on our customers. There has been recovery in FLYHT’s customer base, although geographic differences continue to be seen. Various market and geographic segments of the aviation industry were impacted differently throughout the pandemic, with the decline in commercial aviation being partially offset by an increased demand for cargo services.

Although recovery is evident in FLYHT’s increase in revenues since the pandemic low in early 2021, there may be continued negative revenue impact in the near-term as compared to pre-pandemic periods due to customers rescheduling orders and fluctuations in air traffic in some areas of the world. This may affect the Company’s corresponding hardware and SaaS revenues and the collectability of accounts receivable. Global airline capacity is expected to reach pre-COVID levels in October 2023, but profits still lag. There is continued risk until such a time as the global aviation industry recovers fully. A possibility remains 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.

To preserve the Company's liquidity through this period of commercial aviation uncertainty, the Company accessed governmental support, enacted cost containment and cash conservation measures, worked closely with existing partner airlines to aid in their recovery, and focused investment on developing the AFIRS Edge and Actionable Intelligence SaaS products. The Company continues to monitor industry conditions and implement these and other measures, as the situation dictates.

In 2022 the Company recognized a total of \$423 thousand in government financial relief related to COVID-19 which was applied to offset associated expenses in all three expense categories (Distribution, Administration and Research & Development). This funding did not continue into 2023. All grant funds received to date have been recognized in profit and loss.

(e) Going concern

The unaudited 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 saw an incurred loss in Q3 2023 of \$729 thousand, compared to net income in Q3 2022 of \$704 thousand, with a nine month incurred loss of \$2.5 million in 2023 compared to \$1.7 million incurred loss in 2022; and as at September 30, 2023 has a deficit of \$82.7 million. At September 30, 2023, the Company had positive working capital of \$1.6 million compared to positive \$4.3 million as of December 31, 2022. The Company ended Q3 2023 with balances of \$1.9 million in cash and cash equivalents and an undrawn credit facility of \$2.0 million.

For the Company to continue as a going concern, it will need to consistently achieve profitability and positive operating cash flows. The Company continues 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. Until achieving consistent 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 elect 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.

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 cast doubt as to the Company's ability to continue as a going concern. The condensed consolidated interim financial statements do not reflect adjustments that would otherwise be necessary if the going concern assumption was not valid, such as revaluation to liquidation values and reclassification of statement of financial position items.

3. Significant accounting policies

The accounting policies set out in note 3 of the Company's December 31, 2022 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 end of the reporting period. 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. Business Combination

On March 17, 2022, the Company acquired 100% of the shares of CrossConsense GmbH & Co. KG ("CrossConsense"). Founded in 2002, Frankfurt Germany-based CrossConsense develops and markets software to support commercial aviation maintenance management. Products include a predictive maintenance troubleshooting and engineering tool; software to support aircraft maintenance, repair and data migration; and live data dashboards to assist aircraft maintenance teams. CrossConsense has also constructed a progressive web application plus native apps that offer up-to-date data on an airline's fleet status. Additionally, CrossConsense offers consulting and support services as well as hosting, database operation and performance monitoring of commercial aircraft maintenance applications. This acquisition is expected to accelerate FLYHT's strategic roadmap to build out a maintenance software capability and fulfills the Company's goal to increase its presence in the European and Middle East markets.

Under terms of the agreement, FLYHT (through its wholly owned German subsidiary formed as part of this transaction) acquired all of the outstanding securities of CrossConsense for \$1.25 million in cash and 1.9 million common shares of the Company, valued at \$1.235 million based on the fair value of each common share of the Company on the closing date of \$0.65 per share. The shares were held in escrow, to be released equally in 1/3 increments at 4-, 16- and 28-months following issuance on the transaction's closing date. Also included in the purchase price was other consideration valued at \$192,000.

The Company incurred acquisition-related costs of \$254,903 in due diligence and legal fees in 2021 and a further \$150,121 in 2022. Additionally, in Q1 2022 finders' fees of \$100,000 were paid to a third party in connection with the closing of the transaction. These costs have been included in Administrative Expenses.

The value allocated to the purchase price on the closing date was as follows:

	\$
Cash paid	1,250,000
Common shares issued	1,235,000
Other consideration	192,000
Total consideration	<u>2,677,000</u>

The value of acquired assets and assumed liabilities were as follows: \$

Cash and cash equivalents	1,195,226
Trade and other receivables	590,512
Deposits and prepaid expenses	18,002
Property and equipment	9,322
Leased assets	278,467
Intangible asset: customer relationships	1,527,150
Intangible asset: trade name	217,281
Goodwill	837,258
Trade payables and accrued liabilities	(910,669)
Contract liabilities	(807,082)
Lease liability	(278,467)
Total consideration	<u>2,677,000</u>

Goodwill is attributable to the workforce of the acquired business as well as the expected opportunities for growth and synergies across products, staff, customers and geographies. Goodwill is allocated to the Company's single operating segment and is fully deductible for tax purposes.

The fair value of the assets acquired approximated the book value and included trade receivables of \$409,985. The acquired business contributed revenues of \$4,015,700 and earnings of \$26,558 to FLYHT for the period from March 17, 2022 to December 31, 2022. If the acquisition had occurred on January 1, 2022, consolidated proforma revenue and loss for the year ended December 31, 2022 would have been \$24,765,919 and \$1,030,715 respectively.

6. Earnings per share

The calculation of basic and diluted earnings per share for the three months ended September 30, 2023 was based on a weighted average number of common shares outstanding of 38,968,888 (basic & diluted) (September 30, 2022: 38,737,763 (basic) and 39,029,001 (diluted)).

The calculation of basic and diluted earnings per share for the nine months ended September 30, 2023 was based on a weighted average number of common shares outstanding of 38,872,643 (basic & diluted) (September 30, 2022: 37,936,583 (basic & diluted)).

The nine months ended September 30, 2023 calculation of diluted earnings per share did not include outstanding stock options and both the three and nine months ended September 30, 2022 calculation did not include stock options nor outstanding warrants because they would be anti-dilutive.

7. 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, except for:

- Property and equipment valued at \$5,546 (Denver CO, USA) and \$6,198 (Frankfurt, Germany)
- Leased premises valued at \$178,757 (Frankfurt, Germany)

	For the three months ended September 30		For the nine months ended September 30	
	2023	2022	2023	2022
	\$	\$	\$	\$
United States & Mexico	1,908,288	4,197,196	4,810,639	8,441,393
Asia	419,829	178,284	1,240,993	735,943
China	229,807	403,389	964,872	1,369,390
Middle East	167,892	150,434	504,963	472,764
Canada	265,717	348,404	2,863,717	2,261,665
Australia	124,993	61,840	526,869	272,036
Africa	143,853	122,425	409,104	369,175
Europe	1,816,004	1,247,100	4,522,246	2,558,552
South/Central America	22,636	16,301	56,389	156,484
Total	5,099,019	6,725,373	15,899,792	16,637,402

The following shows revenue per major product and service categories.

	For the three months ended September 30		For the nine months ended September 30	
	2023	2022	2023	2022
	\$	\$	\$	\$
SaaS	2,787,664	2,073,284	7,891,437	5,904,268
Hardware	1,001,817	480,064	3,945,523	3,502,344
Licensing	494,573	3,536,153	1,936,574	6,070,762
Technical Services	814,965	635,872	2,126,258	1,160,028
Total	5,099,019	6,725,373	15,899,792	16,637,402

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 fees are recognized as the service is provided 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 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 was \$989,869 CAD as of September 30, 2023.

Major customers

Revenues from the two largest customers represent approximately 25.1% of the Company's total revenues for the nine months ended September 30, 2023 (YTD 2022: 45.6%).

8. Contractual Arrangement

In Q3 2023 FLYHT issued a performance guarantee valued at £500,000 as required by a customer contract. The guarantee was issued through an available banking facility that allows for a maximum of \$900,000 and is insured by Export Development Canada. The associated costs have been recognized in the Statement of Comprehensive Income, Distribution expenses category. The Company has assessed the expected loss arising from the guarantee to not be material; therefore, no provision has been recognized.

9. Related parties

Since 2020, a company related to an officer of FLYHT has provided marketing services to the Company. A company related to a director of FLYHT provided financial consulting services from Q3 2021 to Q2 2022. All of the transactions with both related parties are considered in the normal course of business and have been measured at their exchange amount.

	For the three months ended September 30		For the nine months ended September 30	
	2023	2022	2023	2022
	\$	\$	\$	\$
Amounts included in:				
Contract labour	22,500	31,000	72,500	123,271
Accounts payable	22,500	21,000	22,500	21,000

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

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1.403.250.9956
www.flyht.com

FNK IR LLC
flyht@fnkir.com
1.646.809.2183

Directors

Mary McMillan
Brent Rosenthal
Doug Marlin
Mike Brown
Paul Takalo
Peter Large
Nancy Young

Chairman, FLYHT Aerospace Solutions Ltd.
Mountain Hawk Capital Partners, LLC
President, Marlin Ventures Ltd.
Partner, Nanaimo Law
Director
Director
Director

Officers

Kent Jacobs
Alana Forbes
Darrel Deane
Scott Chambers
Gurjot Bhullar

President and Interim Chief Executive Officer
Chief Financial Officer
Vice President Solutions
Vice President Sales and Marketing
Vice President Operations

Auditor

KPMG LLP

Calgary, Alberta

Legal Counsel

Chris Croteau

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Head Office

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Calgary, Alberta T2E 7S8

FINANCIAL TERMS AND AVIATION ACRONYMS

ABOs:	Aircraft Based Observations
ACARS:	Aircraft Communications Addressing and Reporting System
ACMS:	Aircraft Condition and Monitoring System
ADS-C:	Automatic Dependent Surveillance - Contract
AID:	Aircraft Interface Device
AFIRS™:	Automated Flight Information Reporting System
AMDAR:	Aircraft Meteorological Data Relay
AMOS:	Aircraft Maintenance and Engineering Operating System
ANAC:	National Civil Aviation Agency of Brazil
APU:	Auxiliary Power Unit
BDC:	Business Development Bank of Canada
CAAC:	Civil Aviation Administration of China
CARES:	The Coronavirus Aid, Relief, and Economic Security Act
CEWS:	Canada Emergency Wage Subsidy
CPDLC:	Controller Pilot Data Link Communications
DAO:	Design Approval Organization
DGAC:	Dirección General de Aeronáutica Civil
EASA:	European Aviation Safety Agency
EBITDA:	Earnings before interest, taxes, depreciation and amortization
ECAA:	Egyptian Civil Aviation Authority
EFB:	Electronic Flight Bag
ERTC:	Employee Retention Tax Credit
ESG:	Environmental, Social, Governance
FAA:	Federal Aviation Administration
FANS:	Future Air Navigation System
FDR:	Flight Data Recorder
FlightLink™:	An Iridium Satellite Data Unit
GAAP:	Generally Accepted Accounting Principles
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
MRO:	Maintenance, Repair, and Overhaul
OEM:	Original Equipment Manufacturer
QAR:	Quick Access Recorder
QTD:	Quarter-to-date
R&D:	Research and Development
RPK:	Revenue Passenger Kilometers
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
TCFD:	Task Force on Climate Related Disclosures
WINN:	Western Innovation Initiative
WQAR:	Wireless Quick Access Recorder
WVSS:	Water Vapour Sensing System
YTD:	Year-to-date