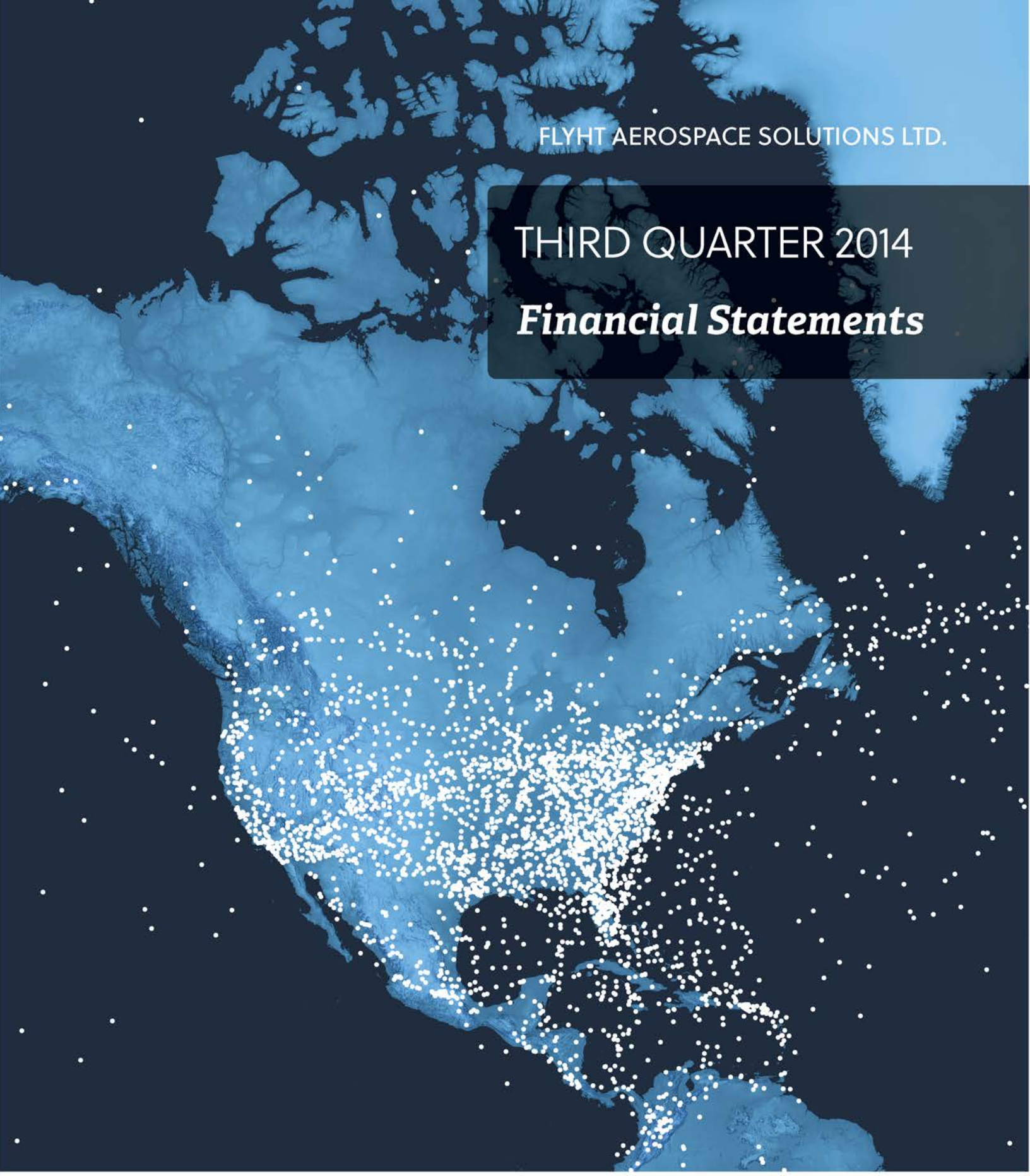


FLYHT AEROSPACE SOLUTIONS LTD.

THIRD QUARTER 2014

Financial Statements

FLYHT™
The Future of Connectivity

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, 2014 and September 30, 2013.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION (UNAUDITED)

	September 30, 2014	December 31, 2013
	$	$
Assets		
Current Assets		
Cash and cash equivalents	4,007,469	5,184,803
Restricted cash	250,000	250,000
Trade and other receivables	1,534,683	784,426
Deposits and prepaid expenses	174,850	145,554
Inventory	1,733,360	1,308,243
Total current assets	7,700,362	7,673,026
Non-current assets		
Property and equipment	239,680	191,695
Intangible assets	34,992	34,992
Inventory	993,338	536,249
Total non-current assets	1,268,010	762,936
Total assets	8,968,372	8,435,962
Liabilities		
Current liabilities		
Trade payables and accrued liabilities	2,180,201	3,704,496
Unearned revenue	1,080,805	1,103,834
Loans and borrowings	3,604,282	3,745,513
Finance lease obligations	25,663	13,175
Current tax liabilities	-	895
Total current Liabilities	6,890,951	8,567,913
Non-current liabilities		
Unearned revenue	191,401	-
Loans payable	2,678,613	1,992,028
Finance lease obligations	50,156	-
Provisions	229,471	148,428
Total non-current liabilities	3,149,641	2,140,456
Total liabilities	10,040,592	10,708,369
Equity (deficiency)		
Share capital (note 6)	52,773,019	48,318,003
Convertible debenture - equity feature	221,616	231,318
Warrants (note 6)	194,739	1,057,652
Contributed surplus	8,049,053	7,458,093
Deficit	(62,310,647)	(59,337,473)
Total equity (deficiency)	(1,072,220)	(2,272,407)
Total liabilities and equity	8,968,372	8,435,962

See accompanying notes to condensed consolidated interim financial statements.
Going concern (note 2d)

On behalf of the board

"Signed"
Director – Douglas Marlin

"Signed"
Director – Paul Takalo

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

	For the three months ended September 30		For the nine months ended September 30	
	2014	2013	2014	2013
	$	$	$	$
Revenue (note 8)	1,808,794	2,183,037	4,663,347	6,063,607
Cost of sales	655,927	940,159	1,700,830	2,497,783
Gross profit	1,152,867	1,242,878	2,962,517	3,565,824
Other (income)	-	(64,380)	-	(193,140)
Distribution expenses	806,051	681,515	2,402,341	2,122,118
Administration expenses	985,756	573,132	2,768,479	2,053,607
Research, development and certification engineering expenses	848,119	440,963	5,024	1,486,876
Results from operating activities	(1,487,059)	(388,352)	(2,213,327)	(1,903,637)
Finance (income)	(101,859)	(27,239)	(18,939)	(2,351)
Finance costs	268,066	255,008	778,732	722,664
Net finance costs	166,207	227,769	759,793	720,313
Loss before income tax	(1,653,266)	(616,121)	(2,973,120)	(2,623,950)
Income tax expense (recovery)	(119)	(171)	54	419
Loss for the period	(1,653,147)	(615,950)	(2,973,174)	(2,624,369)
Total comprehensive loss for the period	(1,653,147)	(615,950)	(2,973,174)	(2,624,369)
Loss per share				
Basic and diluted loss per share (note 7)	(0.01)	(0.00)	(0.02)	(0.02)

See accompanying notes to condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY (DEFICIENCY) (UNAUDITED)

For the three and nine months ended September 30, 2014 and 2013

	Share Capital	Convertible Debenture	Warrants	Contributed Surplus	Foreign Currency Translation Reserve*	Deficit	Total Equity (Deficit)
	$	$	$	$	$	$	$
Balance at December 31, 2013	48,318,003	231,318	1,057,652	7,458,093	-	(59,337,473)	(2,272,407)
Loss for the period	-	-	-	-	-	(2,973,174)	(2,973,174)
Total comprehensive loss for the period	-	-	-	-	-	(2,973,174)	(2,973,174)
Contributions by and distributions to owners							
Issue of common shares	53,000	(9,702)	-	89,202	-	-	132,500
Share-based payment transactions	-	-	-	576,097	-	-	576,097
Share options exercised	289,623	-	-	(83,249)	-	-	206,374
Warrants exercised	4,112,393	-	(854,003)	-	-	-	3,258,390
Warrants expired	-	-	(8,910)	8,910	-	-	-
Total contributions by and distributions to owners	4,455,016	(9,702)	(862,913)	590,960	-	-	4,173,361
Balance at September 30, 2014	52,773,019	221,616	194,739	8,049,053	-	(62,310,647)	(1,072,220)
Balance at December 31, 2012	39,877,966	231,318	3,340,222	6,957,809	-	(55,274,309)	(4,866,994)
Loss for the period	-	-	-	-	-	(2,624,369)	(2,624,369)
Foreign currency translation differences	-	-	-	-	-	-	-
Total comprehensive loss for the period	-	-	-	-	-	(2,624,369)	(2,624,369)
Contributions by and distributions to owners							
Issue of common shares	157,280	-	-	-	-	-	157,280
Share issue costs	(3,121)	-	-	-	-	-	(3,121)
Share-based payment transactions	-	-	-	350,147	-	-	350,147
Warrants exercised	59,199	-	(20,495)	-	-	-	38,704
Total contributions by and distributions to owners	213,358	-	(20,495)	350,147	-	-	543,010
Balance at September 30, 2013	40,091,324	231,318	3,319,727	7,307,956	-	(57,898,678)	(6,948,353)

*Accumulated other comprehensive income (loss)
See accompanying notes to condensed consolidated interim financial statements

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS (UNAUDITED)

	For the nine months ended September 30	
	2014	2013
	$	$
Cash flows from operating activities		
Loss for the period	(2,973,174)	(2,624,369)
Depreciation – PPE	63,390	65,497
Depreciation - AFIRS units	-	10,953
Amortization of intangible assets	-	27,631
Convertible debenture accretion	584,467	456,872
Payment of debenture interest	(845)	-
Amortization of debenture issue costs	64,753	62,314
Government grant accretion	110,073	88,046
Government grant	-	(130,801)
Equity-settled share-based payment transactions	576,097	350,147
Change in inventories	(882,206)	300,731
Change in trade and other receivable	(737,991)	(96,967)
Change in prepayments	(29,296)	(51,097)
Change in trade and other payables	(1,439,500)	(4,386)
Change in provisions	81,043	(15,709)
Change in unearned revenue	168,372	(1,223,092)
Unrealized foreign exchange	(117,432)	105,712
Interest expense	2,797	8,872
Interest paid	(2,797)	(8,872)
Income tax expense	54	419
Income tax paid	(949)	(3,682)
Net cash used in operating activities	(4,533,144)	(2,681,781)
Cash flows from investing activities		
Acquisitions of property and equipment	(30,798)	(4,559)
Disposal of rental assets	-	27,773
Interest income	(2,000)	(2,221)
Interest received	2,000	2,221
Net cash from (used in) investing activities	(30,798)	23,214
Cash flows from financing activities		
Share issue costs	-	(3,121)
Proceeds from issue of debenture	-	1,918,813
Proceeds from issue and exercise of share options and warrants	3,464,764	195,984
Proceeds from grant: SADI	-	196,751
Repayment of borrowings	(80,594)	(82,400)
Payment of finance lease liabilities	(17,933)	(14,632)
Net cash from financing activities	3,366,237	2,211,395
Net decrease in cash and cash equivalents	(1,197,705)	(447,172)
Cash and cash equivalents, beginning	5,184,803	676,246
Effect of exchange rate fluctuations on cash held	20,371	(11,463)
Cash and cash equivalents, ending	4,007,469	217,611

See accompanying notes to condensed consolidated interim financial statements.

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. The Company's head office is located at 300E, 1144 – 29th Avenue NE, Calgary, Alberta T2E 7P1.

The condensed consolidated interim financial statements of the Company as at and for the three and nine months ended September 30, 2014 and 2013 consist of the Company and its subsidiaries.

FLYHT is a designer, developer, and service provider to the global aerospace industry. The Company supports aviation customers in different sectors including commercial, business, leasing and military operators. FLYHT's headquarters are located in Calgary, Canada with sales representation in China, the Middle East, Singapore, South America, the United States and Europe.

2. Basis of preparation

(a) Statement of compliance

The Company has prepared its September 30, 2014 condensed consolidated interim financial statements and the notes thereto 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, 2013. These condensed consolidated interim financial statements were approved by the Board of Directors on November 12, 2014.

(b) Basis of measurement

The 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 ("SFP").

(c) Functional and presentation currency

These condensed consolidated interim financial statements are presented in Canadian dollars, which is the Company's functional currency.

(d) Going concern

These 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. As at September 30, 2014, the Company had positive working capital of $809,411, a deficit of $62,310,647, a year to date net loss of $2,973,174 and year to date negative cash flow used in operations of $4,533,144.

The Company has incurred significant operating losses and negative cash flows from operations over the past years. The Company's ability to continue as a going concern is dependent upon attaining profitable operations and/or obtaining additional financing to fund its ongoing operations. The Company's ability to attain profitable operations and positive cash flow in the future is dependent upon various factors including its ability to acquire new customer contracts, the success of management's continued cost containment strategy, the completion of research and development ("R&D") projects, and general economic conditions. In addition to capital required for regular business activities, the Company will be required to pay debenture interest and principal in the fourth quarter of 2014 totaling $3,525,820, unless the holders exercise the conversion option. 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. If the

need arises due to market opportunities the Company may meet those needs via the capital markets. These material uncertainties may cast significant doubt upon the Company's ability to continue as a going concern.

There is no assurance that the Company will be successful in attaining and sustaining profitable operations and cash flow or raising additional capital to meet its working 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 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 FLYHT's December 31, 2013 consolidated financial statements have been applied consistently to all periods presented in these condensed consolidated interim financial statements, unless otherwise indicated. These accounting policies have also been applied consistently by FLYHT's subsidiaries.

The following new standards, interpretations, amendments and improvements to existing standards issued by the IASB or International Financial Reporting Interpretations Committee ("IFRIC") were adopted as of January 1, 2014 without any material impact to FLYHT's financial statements: *IFRS 7 / IAS 32 – Offsetting Financial Assets and Liabilities, IAS 1 – Presentation of Financial Statements, IAS 39 – Novation of Derivatives and Continuation of Hedge Accounting, and IFRIC 21 Levies.*

The following new accounting pronouncements have been issued but are not effective and may have an impact on the Company. All of the following new or revised standards permit early adoption with transitional arrangements depending upon the date of initial application:

IFRS 9 – Financial Instruments replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. (January 1, 2018).

IFRS 15 – Revenue from Contracts with Customers replaces IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programs, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers, and SIC 31 Revenue – Barter Transactions Involving Advertising Services. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The new standard applies to contracts with customers. It does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRSs (January 1, 2017).

The Company has not completed its evaluation of the effect of adopting these standards on its condensed consolidated interim financial statements.

4. Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods.

(a) Share based payment transactions: measured using the Black-Scholes option pricing model;

(b) Loans and borrowings: for measurement purposes, fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the inception of the loan. In respect of the liability component of convertible debenture, the market rate of interest is determined by reference to similar liabilities that do not have a conversion feature. In respect of the convertible debentures and the debentures, as there has been no material change in the Company's market rate subsequent to the issuance dates, carrying value approximates fair value; and

(c) Trade and other receivables, trade payables and accrued liabilities: carrying value approximates fair value, due to the short-term nature of the instruments.

5. Trade payables and accrued liabilities

The Company settled an ongoing dispute with Sierra Nevada Corporation ("SNC") on June 16, 2014 whereby both parties mutually released all claims against each other. FLYHT and SNC entered into a License and Manufacturing Agreement ('L&M Agreement") as well as a Value Added Reseller Agreement ("VAR Agreement") and for the execution of those agreements SNC has withdrawn invoices totaling a Canadian equivalent of $1,950,957. The L&M Agreement provides for SNC to manufacture and/or sell to military end users and unmanned aerial vehicles for which FLYHT will receive a fee for each unit manufactured and sold to an end user and a percentage of UpTime Services fees paid to SNC by the end user. These fees will commence once SNC realizes revenue of $2.5 million USD. As well, a VAR Agreement was entered into which allows SNC to market and sell FLYHT's AFIRS units and UpTime Services. Under the terms of the VAR Agreement FLYHT will pay SNC an agreed commission. Based on the terms of the agreements FLYHT derecognized the accounts payable liability with an off-setting recovery of research and development expenses of the same amount.

6. Capital and other components of equity

The Company grants stock options to its directors, officers, employees and consultants.

In the first quarter of 2014 the Company granted 400,000 stock options to one Investor Relations (IR) consultant under the stock option plan. The stock options expire December 31, 2016, have an exercise price of $0.45 per share, with 100,000 options vested on March 31, and a further 100,000 vesting on each of June 30, September 30, and December 31, 2014. The fair value of the options granted was determined based on the estimated fair value of services to be received.

In the second quarter of 2014 the Company granted 2,480,750 stock options to employees, officers and directors under the stock option plan. The stock options vest immediately, expire December 31, 2017, and have an exercise price of $0.40 per share. The options were granted at an exercise price not less than fair market value of the stock on the date of issuance.

In the third quarter of 2014 the Company granted 300,000 stock options to employees, officers and directors under the stock option plan. The stock options vest immediately; expire December 31, 2017, with 150,000 stock options having an exercise price of $0.40 per share, and 150,000 having an exercise price of 0.53 per share. The options were granted at an exercise price not less than fair market value of the stock on the date of issuance.

All outstanding options issued to date vested immediately at the grant date with the exception of 1,200,000 options, comprised of 400,000 options to each of three IR consultants. Vesting provisions provide that 25% of the total stock options issued under these three agreements vest to each of the IR consultants per quarter over the first one-year period. There remain 300,000 unvested options as at September 30, 2014 (2013: 1,100,000).

The weighted average fair value of the options granted during the year that were valued using the Black-Scholes option pricing model was $0.20 (2013 $0.12), estimated based on a risk free-interest rate of 1.56% (2013: 1.24%), an expected life of 3.70 years (2013: 3.65), volatility of 78% (2013: 99%), and a dividend yield rate of 0.00% (2013: 0.00%).

In the first quarter of 2014, the Company issued a total of 3,944,280 shares due to warrant and option exercises and convertible debenture conversions for total proceeds of $1,254,787, including:

a) 1,821,500 warrants exercised at $0.30 for proceeds of $546,450
b) 1,321,780 warrants exercised at $0.40 for proceeds of $528,712
c) 718,500 options exercised at $0.25 for proceeds of $179,625
d) 82,500 convertible debentures converted at $0.40

In the second quarter of 2014, the Company issued a total of 7,349,587 shares due to warrant and option exercises and convertible debenture conversions for total proceeds of $2,178,102, including:

a) 151,987 warrants exercised at $0.20 for proceeds of $30,397
b) 6,964,100 warrants exercised at $0.30 for proceeds of $2,089,230
c) 84,000 warrants exercised at $0.40 for proceeds of $33,600

d) 99,500 options exercised at $0.25 for proceeds of $24,875
e) 50,000 convertible debentures converted at $0.40

In the third quarter of 2014, the Company issued a total of 107,500 shares due to warrant and option exercises and convertible debenture conversions for total proceeds of $31,875, including:

a) 100,000 warrants exercised at $0.30 for proceeds of $30,000
b) 7,500 options exercised at $0.25 for proceeds of $1,875

7. Earnings per share

The calculation of basic and diluted earnings per share for the three months ended September 30, 2014 was based on a weighted average number of common shares outstanding of 170,209,597 (2013: 142,531,924). The calculation of diluted earnings per share did not include stock options of 9,827,750 (2013: 9,069,500), warrants of 4,144,750 (2013: 31,940,453) and convertible debentures of 7,433,750 (2013: 7,897,500) because they would be anti-dilutive.

8. Operating segments

The Company has one operating segment. All non-current assets (property and equipment and intangible assets) reside in Canada. The following revenue is based on the geographical location of customers.

	Q3 2014 $	Q3 2013 $	YTD 2014 $	YTD 2013 $
North America	807,544	1,178,097	2,105,686	3,121,793
South/Central America	76,922	97,405	237,183	292,419
Africa/Middle East	201,574	233,005	825,334	800,923
Europe	139,022	45,810	263,033	508,230
Australasia	146,682	237,217	514,444	509,326
Asia	437,050	391,503	717,667	830,916
Total	**1,808,794**	**2,183,037**	**4,663,347**	**6,063,607**
Revenues from three largest customers	**34.0%**	**50.0%**	**24.9%**	**35.0%**

CORPORATE INFORMATION

Registrar and Transfer Agent

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Email: inquiries@valianttrust.com
www.valianttrust.com

Share Listing

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

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Directors

Doug Marlin	Chairman, FLYHT Aerospace Solutions Ltd. & President, Marlin Ventures Ltd.
Bill Tempany	Chief Executive Officer, FLYHT Aerospace Solutions Ltd.
Mike Brown	Partner, Geselbracht Brown
Paul Takalo, CA	Vice-President, Standen's Limited
Jacques Kavafian	Director
Jack Olcott	President, General Aviation Company
Barry Eccleston	President, Airbus Americas, Inc.
John Belcher	Former Chairman and Chief Executive Officer, ARINC Inc.

Officers

Bill Tempany	Chief Executive Officer
Matt Bradley	President
Nola M. Heale, CA	Chief Financial Officer
Derek Graham	Chief Technical Officer
Jeff Brunner	VP Certification Engineering and China Operations

Auditor

KPMG LLP — Calgary, Alberta

Legal Counsel

Chris Croteau — Tingle Merrett LLP, Calgary, Alberta

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